FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER
No. 29,074 — Monday May 16 1983 — D 8523 B

An assessment of Mrs Thatcher's policies, Page 16

NEWS SUMMARY

GENERAL

France to seek German accord

France will be trying to win support from West Germany for plans to boost growth and stabilise exchange rates during their two-day summit in Paris today.

The French Government is particularly keen to see recovery in its most important trading partner to reduce the still mounting trade deficit with Germany.

President François Mitterrand and Chancellor Helmut Kohl are expected to have several hours of discussions. But accord on the President's call for a Bretton Woods-style system of exchange rates is unlikely. Page 18

Arms talks hopes

West Germany's Defence Minister Manfred Wörner said the Soviet Union might give way in nuclear arms talks if the West stood firm, avoiding the need to deploy cruise and Pershing 2 missiles.

Pakistani mission

Pakistan's Foreign Minister Sahabzada Yaqub Khan started a six-nation tour seeking support for a settlement to the Afghanistan problem.

Prisoners swapped

Eight West Germans charged in Libya with spying for the CIA were sent home in return for two Libyans arrested over allegations of torturing fellow countrymen. Page 2

Summit in Paris

President Mitterrand of France and Chancellor Kohl of West Germany meet in Paris today to renew their countries' special relationship after monetary and economic differences. Page 18

China jails editor

Lo Cheng-Hsun, editor-in-chief of Hong Kong's New Evening Post, was jailed for 10 years by the Chinese Government for spying for the U.S. Page 2

Gulf oil slick plea

The Gulf states will try today to persuade warring Iran and Iraq to let workers cap damaged Iranian oil wells which are pouring crude into the Gulf at a rate of thousands of barrels a day. Page 4

North Sea rescue

Thirty-seven people were evacuated from a North Sea platform 40km off the Dutch coast after it began to leak gas.

Rodolfo Gucci dies

Rodolfo Gucci, one of the four brothers who made their name famous for elegant fashions, died in Milan. He was 71.

Chile clampdown

Chilean military police arrested over 2,000 people in Santiago following the funeral of a taxi-driver killed during anti-government demonstrations. Page 2

Grand Prix winner

Keke Rosberg of Finland, driving a Williams, won the Monaco Grand Prix. Brazilian Nelson Piquet was second.

Briefly...

Sand storms hit Jeddah, Saudi Arabia, cutting visibility to 500m and pushing the temperature up to 42C.

Karachi dockers ended a 45-day strike after their wages were increased 10 per cent.

Malawi, a one-party state, will hold a general election on June 9.

Earthquakes shook the Ionian Islands off western Greece. No one was hurt.

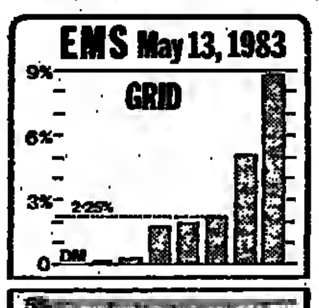
BUSINESS

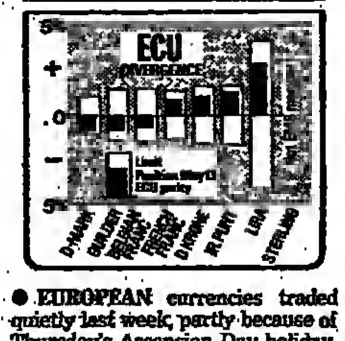
AT & T deal with U.S. chip makers

● AT & T, the U.S. telecommunications giant, has persuaded leading U.S. chip makers Motorola, National Semiconductor and Intel to make their advanced microprocessor devices conform to an AT & T design. Page 20

● ERT, the Spanish chemicals group, is near to concluding talks on its $1bn debts, incurred partly because of the peseta's decline against the dollar. Page 18

● WEST GERMANY is confident of selling nuclear reactors to Egypt but will not finance their purchase, research minister Heinz Riesenhuber said. Page 3





● EUROPEAN currencies traded quietly last week, partly because of Thursday's Ascension Day holiday. There was little change in interest rates; Paris domestic and Eurocurrency rates fell slightly as pressure eased on the French franc, despite political unrest. Attention focused on the Japanese yen, which was firmer against all currencies, and on the dollar, which moved nervously on speculation about a cut in the Federal Reserve discount rate before the Williamsburg summit.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● POLAND'S industrial production fell by 7.2 per cent last month, compared with March, but was still 10 per cent up on the first four months against the same period of 1982. Page 2

● BRAZIL'S car production will be ahead of the UK's by 1985, according to DRI Europe. Page 3

● SYRIA is awarding contracts to Eastern bloc countries which Western companies thought they would win before Israel's invasion of Lebanon. Page 3

● ISRAEL'S trade deficit increased by 35 per cent in the first four months of the year to a record $1.06bn.

● BRITAIN'S chemicals industries face the prospect of permanent decline over the next decade, according to the Chemicals Economic Development Committee. Page 18

● U.S. COMMERCE Secretary Malcolm Baldrige arrives in Tokyo today to start a 10-day Asian trip to try to smooth trade relations between the U.S. and China and Japan. Page 3

● LINDE, the West German engineering company, emerged front runner in the bidding for French fork-lift-truck maker Fenwick Manutention. Page 20

● FITCH LOVELL, the UK food group, has asked shareholders to give its board freedom to choose between rival offers for its Key Markets supermarket chain. Page 18

Banks seek way to keep Brazil debt rescue alive

BY ALAN FRIEDMAN IN LONDON AND WILLIAM HALL IN NEW YORK

Sr Carlos Langoni, the Brazilian central bank governor, and the country's key creditor banks are urgently considering new ways of keeping the country's debt rescue arrangements as planned.

Sr Langoni, who arrived in New York on Friday is expected formally to ask the International Monetary Fund today to relax the terms on which it is lending $4.9bn to Brazil. This move is likely because Brazil is failing to meet several important economic targets agreed with the IMF earlier this year.

Meanwhile, talks have been held in New York at the weekend as concern has mounted that Brazil's multi-billion dollar rescue package – including new bank loans, IMF money and trade credits – might now be in danger of coming apart.

The most immediate concern centres on the provision of interbank credits – the short-term deposits which banks place with each other and which are a vital source of liquidity for Brazil in the present situation.

Major U.S. banks are increasingly convinced that official efforts to persuade banks to restore their Brazilian interbank lines from just under $6bn to at least $7.5bn are now unlikely to succeed. Some U.S. regional and European banks are refusing to restore their interbank lines to previous levels. Some reports suggest that a significant number of banks may now be reluctant to increase their short term exposure.

One Detroit bank, for example, said on Friday that it had completely withdrawn a $70m line which it had once had to Banco do Brasil. It had, it said, no intention of restoring it although it was prepared to consider trade-related credits to cover exports to, and imports from, Brazil.

Some bankers are arguing – that the basic structure of the complex rescue package is sound but that, partly because of the problems with short-term liquidity, it may now be necessary to alter parts of it. Others believe that Brazil is now going to have to find alternative sources of short-term finance because of the problems with the interbank lines.

Sr Langoni told Associated Press his objective was "simply to accelerate the receipt of already committed funds."

He conceded that Brazil was suffering from what he called a "liquidity squeeze" and was about $550m behind in its foreign payments. But he said the average delay was only 12 days, and that the situation was "a passing phase due to seasonal export problems." He predicted that by September Brazil would be up to date on its foreign payments.

Sr Langoni said his main effort while in the U.S. would be to prod private banks to accelerate the disbursement of trade-related lines of credit which had already been committed.

Continued on Page 18
Details of Brazil's debt position, Page 19; Brazilian car production, Page 3

Jobs are greatest worry, says poll

By Malcolm Rutherford in London

UNEMPLOYMENT has emerged as the greatest single cause for concern among the industrial democracies, according to the results of an international opinion poll published today.

Fears about inflation appear to have abated somewhat in the last few months, as have worries about the energy crisis. There is still concern about "the threat of war," though rather less than when a broadly comparable poll was conducted in September last year.

A striking subsidiary finding is that there seems to have been a decline of confidence among Americans in the quality of political leadership in the U.S.

Poor political leadership was listed by 36 per cent of Americans among their major concerns – 10 points up on last September. In Britain, France and Germany, confidence in the political leadership appears to have grown.

In West Germany 82 per cent of respondents gave unemployment as one of their main anxieties – up seven points from before. In the U.S. the figure was only 52 per cent, but it was still an increase of 10 percentage points.

The exception was Japan, where only 23 per cent of respondents listed unemployment as one of their greatest concerns. But Japan was not polled last time, so there is no proper basis for comparison, and the Japanese responses in general were characterised by a high degree of "not sures."

The country most concerned about inflation is France, where 48 per cent of those asked said that it was among their major worries. Next came Italy with 43 per cent. The figures for the U.S., Britain and Germany were 35, 22 and 21 per cent respectively. In Japan it was 33 per cent.

Concern about "excessive government spending" is highest in Germany and the U.S. – 34 and 33 per cent respectively – though in Germany the concern is diminishing and in America it is rising. In the UK it was mentioned by only 10 per cent.

The poll, called Industrial Democracies and World Economic Tensions, was sponsored by the Atlantic Institute for International Affairs in Paris and conducted by the Louis Harris organisation last month.

Details, Page 17

Syria mounts opposition to Gemayel deal

BY PATRICK COCKBURN IN DAMASCUS, NORA BOUSTANY IN BEIRUT AND STEWART DALBY IN JERUSALEM

SYRIA is moving in strong opposition to the government of President Amin Gemayel of Lebanon after his decision to sign an agreement with Israel under which the Israelis will withdraw their troops from Lebanon if Syria agrees to do the same.

Damascus is now encouraging its allies on both the Right and the Left within Lebanon, who met on Saturday, to come out against the agreement and against President Gemayel.

Mr Yassir Arafat, the leader of the Palestine Liberation Organisation (PLO), said in Damascus yesterday that war was now the only way to change the balance of power in the Middle East, according to the Palestinian news agency Wafa.

Yassir Arafat: 'war the only way'

In one of the toughest statements he has made for months, Mr Arafat appeared to mark his recent shift towards hard-line Syria and away from moderate Jordan, with whom his talks on U.S. Middle East peace efforts broke down last month.

The Syrian Government said at the weekend that the agreement threatened its security and would move Lebanon from being an ally of the Arabs to an ally of Israel. The state-controlled Syrian Press yesterday warned of the danger of civil war resuming in Lebanon.

The Lebanese cabinet unanimously approved the troop withdrawal accord with Israel on Saturday. The Lebanese parliament is to retify the agreement today, so that it will be ready for signature on Tuesday.

Pro-Syrian Lebanese political figures met in the northern stronghold of Zghorta to form an opposition "national front." They included Mr Suleiman Franjieh, a former Lebanese president and an old-time Syrian ally, Mr Rashid Karami, former prime minister and leader of the Sunni Moslems in Tripoli, Mr Walid Jumblat, a Druze and Progressive Socialist Party leader, and Mr George Hawi, Lebanese Communist Party leader.

Mr Karami, who stopped short of proclaiming a "national front," said he nevertheless totally rejected the proposed agreement with Israel.

Mr Jumblat, who has been staying in Damascus over the past week, was flown back to the Syrian capital yesterday with Mr Hawi to brief Syrian leaders on the outcome of the talks in Zghorta.

In Netanya, Israel, yesterday, Lebanese and U.S. officials were still putting the finishing touches to the draft agreement for troop withdrawals from the Lebanon. The agreement worked out by Mr George Shultz, the U.S. Secretary of State, in two weeks of recent shuttle diplomacy, has been passed at respective cabinet levels, but problems of the translation into a French text remain.

Israeli officials were confident that the agreement would be signed, probably on Tuesday, despite Syria's insistence that it would not remove its estimated 40,000 troops in Lebanon.

Israel has said it would not withdraw its own 25,000-strong occupying force unilaterally. This means that although the agreement will be completed and signed, it may not be implemented until the Syrians agree to withdraw and the estimated 8,000 outstanding PLO forces in the north of Lebanon also agree to leave. Israeli officials yesterday were confident that the Syrians would ultimately withdraw.

They gave the following reasons. First, Israeli troops are deployed just 25 kilometres from Damascus, the Syrian capital, and pose a threat to the Damascus-Aleppo road, which they describe as Syria's bloodline. Implicit in this deployment is the Israeli belief that if the Syrians are not prepared to leave voluntarily, then the Israelis have the capability to force them out.

Secondly, the Israelis say they accept the word of President Gemayel, that Lebanon can persuade the Syrians to leave. They say that President Hafez Assad sent his troops into Lebanon in 1976 at the specific request of the Beirut Government of the time.

Agricultural disorder in the Bekaa Valley, Page 2

UK may get new EEC rebate before June poll

BY JOHN WYLES IN GYMNICH, WEST GERMANY

THE BRITISH Government's prospects of securing a vital reduction in its payments to the 1983 EEC budget before next month's general election appeared to strengthen after informal weekend talks here between Community foreign ministers.

Meeting in the rural calm of a Rhineland Schloss, they laid the ground for detailed negotiations in Brussels on May 24-25 on the size of the rebate to be paid back to the UK on its net contributions to Brussels this year.

Mr Francis Pym, the British Foreign Secretary, said the weekend had been a "constructive and hopeful step towards a solution" of the rebate issue. He observed that, far from making his negotiating task more difficult, the imminent election was making it "even considerably easier." Everything now depended on "how far our partners are prepared to go on May 24-25."

But the task facing Mr Pym, remains a tough one. It became clear at the weekend that several Governments wanted the UK to soften its opposition to proposals for raising the existing ceiling on the Community's budget revenues now that they are close to exhaustion.

Mr Pym was totally unready to do so at the weekend. His position was fortified by West Germany's hostility to the idea and by an unexpected reluctance on the part of Belgium and the Netherlands to give it immediate support.

His confidence also seemed to be strengthened by the extent to which British and West German demands for a quick clampdown on the surging costs of the Common Agricultural Policy was also gaining ground in other member states.

As a result, Herr Hans Werner Lautenschlager, a senior West German Foreign Ministry official, together with a representative of the European Commission, will tour national capitals in the next week to try to identify a package deal for adoption on May 24-25.

That would seek to deliver an agreement on the UK's rebate together with guidelines for negotiation in the coming months on the CAP's costs crisis and future financing of the Community. These guidelines would submitted for endorsement by the Community heads of government summit in Stuttgart on June 6-7.

The fact that the majority of EEC governments are Centre-Right coalitions is emerging as potentially important in the negotiations on the UK's 1983 budget rebate. Most would prefer a Conservative victory on June 9 to the arrival of a Labour government dedicated to withdrawal from the EEC.

Although they may make Mrs Margaret Thatcher, the British Prime Minister, wait until the Stuttgart summit for a final deal on the rebate, they are unlikely to rob her of success if the issue appears to weaken her campaign for re-election.

Herr Hans Dietrich Genscher, president of the EEC Council of Ministers and West German Foreign Minister, took a more cautious view. Looking ahead to the Brussels negotiations and the Stuttgart summit, he said he was "encouraged but not yet hopeful."

But M Claude Cheysson, the French Foreign Minister, issued an important warning about the negotiations resuming in Brussels today on new EEC farm prices. Underlining the domestic and political importance to France of an agreement this week, he warned that "failure will create such tensions" that nothing would be possible on other issues.

Farm price talks, Page 2

Japanese robot manufacturer in European development pact

BY NICK GARNETT

DAINICHI KIKO, Japan's third largest industrial robot manufacturer in terms of sales, has signed a tripartite agreement on joint technical development and marketing with the French electrical and engineering group Thomson-Brandt and the British company Dainichi-Sykes.

The agreement will be formally announced today at the Automan exhibition in London. It might eventually influence the siting of a robotic manufacturing plant which Dainichi-Sykes – a wholly British owned subsidiary of the Yorkshire-based Sykes Group – intends building in Europe.

The agreement involves Thomson Auxilec – Thomson-Brandt's electrical engineering division – co-operating with the Japanese and British companies in developing robotics and flexible manufacturing systems, and designing components such as motors and control units. Thomson-Auxilec will also act as a distributor of the Dainichi range of 16 robots in France, Spain, Italy and Portugal.

This distribution and technical development link already exists between Dainichi Kiko and the Preston-based Dainichi-Sykes, which imports Dainichi robots and then designs, builds and sells automated systems to go with them. It also has the European distribution rights, with the power to appoint distributors.

Mr John Tomlinson and Mr David Walker, joint managing directors of Dainichi-Sykes, were appointed to the Japanese company's board earlier this year in an unusual example of Anglo-Japanese cooperation.

The sale of Dainichi robots in Europe will be further advanced by the appointment of Stiefelmayer as distributor for Germany, Austria and Switzerland. The West Germany company manufactures advanced measuring and marketing machines and is a significant supplier to vehicle and aerospace manufacturers.

Dainichi-Sykes, which sold more than £1m worth of equipment last year compared with Dainichi Kiko's estimated sales of £16.4m, was involved in discussions with the Department of Industry this week about setting up a robotic manufacturing base in Europe.

Mr Tomlinson said yesterday he would like to see the plant built in the UK but the company would be influenced by the size of any financial assistance offered elsewhere in Europe.

Technology Report, Page 11; Japanese statistical trends, Page 5

CONTENTS

International 2,4
Companies 20
World Trade 3
UK 6-9
Companies 21
Appointments 29
Arts – Reviews 15
– World Guide 15
Building 12
Currencies 32
Editorial comment 16
Eurobonds 19
Financial Futures 32
Intl. Capital Markets 19-20
Letters 17
Lex 18
Management 14
Men and Matters 16
Money Markets 32
Stock Markets – Bourses 28
– Wall Street 26
– London 30,31
Technology 11
Weather 18

U.S. economy: cautious signs of optimism 2
Management: how video relays company message ... 14
Africa: the return of the Ugandan Asians 17
Editorial comment: France; air fares 16
Lex: a fair wind for the Paris bourse 18
Lebanon: cash crop fails in the Bekaa Valley 2
Statistical Trends: Japan 5
World Banking – Part Two: Survey .... Section III

OVERSEAS NEWS

Paul Taylor in Hot Springs, Virginia reports on the top industrialists' conference

Boardroom moguls optimistic on U.S. economy

NOBODY REALLY expected a reply to the rather impertinent question: "Who want's Volcker for another term? Raise your hands." But the reply came. One by one the arms went up.

Mr Clifton Garvin, chairman of the Business Council and of Exxon Corporation led the bizarre informal vote among the 14 members of the influential U.S. industrial group's executive committee present.

Ten other executive committee members followed. There were no votes against the Fed chairman's reappointment when his current term of office ends in July, but three businessmen abstained.

Mr Walter Wriston, chairman of Citicorp and himself a possible candidate for the job, explained he had reservations about Volcker's record and, in particular about past credit controls and Mr Paul Volcker's attitude towards Wriston's pet subject, bank deregulation.

The other abstentions came from Mr James Evans, chairman of Union Pacific, and Mr John Debutts, former chairman of American Telephone and Telegraph. Both said later that they favoured a Volcker reappointment, but Mr Debutts said he felt the vote was inappropriate.

Keynote speakers (Mr Volcker himself declined an invite) at the Business Council's bi-annual conference at the Homestead Hotel resort were also coy. Mr Donald Regan, the Treasury Secretary, would say only that the vote would make no difference to White House deliberations.

The informal vote, which immediately became a major barroom, tennis court and golf course topic of conversation, did, however, show that the top leaders of corporate America, together with Wall Street, think the Fed chairman should be given a second term.

While the vote itself was still something of a side issue, it did highlight the basic concerns of the two-day meeting attended by 116 chairmen and chief executives from America's largest corporations.

The businessmen's message was simple. The economy is starting to pick up, but a failure to match the Fed's achievements on the monetary front with federal spending cuts could have dire consequences for inflation, interest rates and the recovery itself.

This mood, reflected in the Council's economic forecast and in corridor conversations, is considerably more optimistic than it was just six months ago. But business leaders point out that the recovery is both 'patchy' and 'fragile' and could easily be blown off course by a failure to reduce the yawning budget deficits—particularly in later years.

What most worries the U.S. business community is that while the recovery is sustainable this year, despite the $200bn (£129bn) deficit, because of weak private sector borrowing demand, Congress and the Administration may be unwilling, or unable, to reduce the deficit in subsequent years.

The debate was given added emphasis and urgency by the Senate budget impasse which blossomed on day one of the conference and by the comments of Mr Regan, Mr Martin Feldstein, chairman of President Reagan's economic council, and by Mr David Stockman, the budget director.

Mr Stockman talked of "Gridlock politics," Mr Feldstein of "not trivial risks," and Mr Regan of the possibility of "very strict monetary policy" to prevent a return of "wild inflation" if the deficits are not brought under control.

Only Mr George Shultz, Secretary of State, and Mr Caspar Weinberger, the U.S. Defence Secretary, seemed able to transcend the issue. Mr Weinberger, a regular at Hot Springs, delivered virtually the same speech he gave six months ago to an already convinced audience. He said deficits mattered but not so much that the defence budget should be trimmed any further than it already has been.

There seemed to be little dissent from that view. Mr Weinberger said his reception had been "quite heartwarming."

One of the problems facing the business leaders is that although they are concerned about the deficits, they appear to have few, if any answers. They would, however, prefer to see non-defence spending cut rather than any increase in taxation.

Another problem is that the business leaders' industrial experience remains fragmented.

Although the immediate profits picture looks pretty rosy, the council is predicting a 20 per cent surge in corporate profits this year and a 22 per cent jump during 1984—due mainly to reduced costs and wage increases and higher productivity. The business leaders, however, painted a particularly "spotty" picture of the recovery so far.

On the retail side, Mr Donald Seibert, chairman of J. C. Penney, said: "There is a little better tone to things." Mr James Ferguson, chairman of General Foods, said: "Our volumes are running ahead of expectations" but added that the upturn was only "modest."

Mr Ferguson's comments prompted one of the few jokes of the conference. Mr John Opel, chairman of International Business Machines, recalling the meeting of senior corporate economists who put together the Council's economic report said General Food's economist had noted that demand for poultry products was very good while demand for bacon was terrible. Mr Opel said: "Someone replied 'its better to be a beg than a turkey.'"

The car manufacturers, who appeared to be doing brisk trade with demo models on the hotel's front drive, were also fairly bullish. Mr Roger Smith, chairman of General Motors, said his company had called back 45,000 workers since the start of the year and another 20,000 are on notice to come back. "Our order book is probably the strongest for three years," he said.

Those representing the housing and electronics sectors also reported a brisk upturn but in other areas like capital goods, agricultural machinery, steel, chemicals and transport sectors, the recovery has yet to be seen.

PRESIDENT Ronald Reagan doggedly reaffirmed his opposition to new tax increases at the weekend, repeating his well worn position, that they would do nothing to reduce budget deficits, Reginald Dale, U.S. Editor writes from Washington.

Mr Reagan held firm despite warning from leading Republican senators, that he must compromise on taxes if he wants to keep playing a role in the congressional budget process.

Following the failure of Mr Reagan's hitherto loyal Republican supporters to push through a budget in the Senate last week, the Senate Republicans now reluctantly accept that they will have to negotiate with the Democrats in the days ahead if Congress is to pass a budget resolution.

Mr David Stockman, Mr Reagan's budget director, warned that the political "gridlock" in Congress might mean that no budget resolution could be passed for fiscal year of 1984 and urged Mr Reagan to step in.

Mr Martin Feldstein, chairman of the Council of Economic Advisors, warned that Congressional failure to reduce future budget deficit, would pose a risk that the economic recovery might "peter out in a year or two."

Glenn pulls ahead of Mondale in new poll

By Reginald Dale, U.S. Editor, in Washington

THE RISE of Senator John Glenn as a potential challenger for the U.S. presidency received a further boost yesterday, as an opinion poll for the first time put him ahead of former Vice-President Walter Mondale, who is generally considered to be the front runner for next year's Democratic nomination.

A nationwide poll of registered Democrats carried out by the Los Angeles Times gave 28 per cent backing to Mr Glenn, the former astronaut who is now an Ohio Senator, against 26 per cent for Mr Mondale. Only a month ago, a similar poll showed Mr Glenn trailing Mr Mondale by 17 to 34 per cent.

The latest poll was immediately attacked by Mr Mondale's advisers as "fundamentally out of step with all other available public data." It nevertheless confirms recent private soundings that have indicated a surge of support for Mr Glenn and suggested that Mr Glenn might be more likely than Mr Mondale to beat President Ronald Reagan if he decides to run again.

Mr Glenn's supporters claimed that the new figures were bound to weaken Mr Mondale's strategy, which was based on the premise that he already securely had the nomination. They should also help significantly in expanding support for Mr Glenn and for raising campaign funds, they said.

Ministers try to end deadlock over EEC farm prices

BY JOHN WYLES IN BRUSSELS

EEC AGRICULTURE Ministers meet in Brussels today to try to end a political deadlock over new Community farm prices which appears to be hardening because of looming elections in Britain and Italy.

Although agro-monetary issues will be well to the fore, negotiations may stumble over the late and ambitious demands of the Sig Calogero Mannino, the Italian Minister.

He is arguing that the 4.2 per cent average price rises which the European Commission is insisting upon are an insufficient return for his farmers who are labouring under a 16 per cent domestic inflation rate.

With both eyes on the Italian elections on June 26, Sig Mannino wants a system of interest rate subsidies on credits for Italian farmers which may cost as much as £150m.

This brings him into direct conflict with Mr Peter Walker, the British Minister. In the past three years, Mr Walker has acquiesced to generous farm price deals but, with British elections on June 9, he is inflexibly opposed to adding any additional costs to the outline package.

M Gaston Thorn, the Commission President, was in Rome last week trying to encourage a more compromising line from Sig Mannino and reminding him of the very real limits to future farm spending now being imposed by the Community's money shortage.

The other main unresolved issue concerns the taxes and subsidies on intra-Community farm trade, known as monetary compensatory amounts. France is insisting on a minimum 3 per cent reduction on the 13 per cent tax imposed at the German border. This looks likely to be achieved with the help of a general 1 per cent revaluation of the European currency unit (Ecu) to take account of an 8 per cent rise in sterling since the March currency realignment in the European Monetary System.

France and Germany appear close to a compromise on this point which would have sealed a farm price deal this year but for the Italian intervention.

If this week's talks, which could stretch until Wednesday, fail to reach agreement some very angry reactions are likely from the farming community, particularly in France. There would then be a real risk of no agreement until after the Italian elections, which would mean one of the longest delays in settling new common prices in EEC history.

Chilean junta cracks down on opposition

BY MARY HELEN SPOONER IN SANTIAGO

CHILEAN military police, army troops and civilian detectives mounted a huge police operation in several working class neighbourhoods of Santiago early on Saturday, arresting over 2,000 people.

The raids came in response to the funeral Friday of a 22-year-old taxi driver killed on Wednesday night, apparently by police, during demonstrations against the military Government. Residents of La Victoria, one of the low-income neighbourhoods raided the home of the dead taxi driver, reported that the police forces began pounding on their doors at 4am, using loudspeakers to order all men and boys between 14 and 45 to leave their home. Army troops blocked off the areas, preventing local inhabitants from leaving and outsiders from entering.

Those detained were taken to two football fields and checked for identification documents and work contracts. Most of those with their papers in order were released after a few hours but between 100 to 400 men were reported to remain in detention.

A communique from the Santiago state of emergency military headquarters said the operation had been carried out due to "numerous reports" of armed attacks on police officials in the area. The Communique said the "criminal and subversive delinquents" had been detected in the neighbourhood. The Government news agency Orbe reported that police found two submachine-guns, two revolvers and two pistols in one of the areas raided.

A military sweep of low-income areas appears to be the first of a series of actions General Augusto Pinochet's regime has promised to take to quell a recent surge of political protests and disturbances. On Thursday, Interior Minister Enrique Montero announced the President had approved a package of measures in response to a national protest organised by copper mine workers and other labour groups last Wednesday.

The Government's national statistical institute reports unemployment at 20.1 per cent.

Germany and Libya again swap prisoners

By James Buchan in Bonn

EIGHT West Germans held in Libya for the past month were yesterday exchanged at Frankfurt Airport for two Libyan citizens. It was the culmination of an elaborate swap of prisoners which is causing some unease in the UK.

The eight, employees of West German companies contracting in Libya, were arrested in the middle of April and charged with espionage and other offences. This occurred shortly before proceedings opened in Bonn against the two Libyans, who were charged with torturing two Libyan students at the Libyan People's Bureau (embassy) last November.

The Bonn Government said yesterday that it had asked the local judicial authorities to lift the charges against the two Libyans on "humanitarian" grounds so that they could be deported.

This followed last weekend's exchange of four West Germans, who were gaoled for espionage and other offences in Libya two years ago, they were swapped for a Libyan serving a life sentence for the 1980 shooting of a former Libyan diplomat in Bonn's main square.

However, there have been fears that the swaps could endanger employees of contracting companies in Libya, including as many as 3,000 Germans, and would do nothing to curb terrorist actions in Europe against opponents of Colonel Gadaffi's Government in Tripoli.

Bonn faces civil service pay fight

By Our Bonn Correspondent

WEST GERMAN civil servants yesterday reacted with alarm to reports that the Bonn Finance Ministry is hoping for a freeze in their salaries in 1984 as part of consolidation of state finances.

The response of the civil servants' union yesterday comes at the start of a week when senior ministers will meet to find ways of cutting a further DM 6.5bn ($2.7bn) off the 1984 budget in order to come under a ceiling of DM 40bn for net borrowing set by Herr Gerhard Stoltenberg, the Finance Minister.

Peking jails editor on Hong Kong spy charge

BY MARK BAKER IN PEKING

ONE OF Hong Kong's most influential newspaper editors has been jailed for 10 years by the Chinese Government for allegedly spying for the U.S.

Lo Cheng-Hsun, 62, was editor-in-chief of the Chinese-language New Evening Post, which is regarded as an unofficial mouthpiece of the Chinese Government in Hong Kong.

The official news agency, Xinhua, announced yesterday that Lo had been convicted as "a foreign spy" by the Peking intermediate people's court. "The judgment handed down by the court says that Lo became a spy several years ago for an American intelligence agency for which he provided important secret information about China's political, diplomatic and military affairs and from which he received regular subsidies," Xinhua said.

The agency said Lo had pleaded guilty and had not taken up an option to appeal after the court sentenced him to 10 years' jail and three years' "deprivation of political rights." Lo is believed to have been arrested last May after being recalled to Peking for meetings with Government officials.

The "New Evening Post," which he had edited since 1951, is believed to be owned indirectly by the Chinese Government. It has a status similar to the big provincial newspapers on the mainland and many of its staff were appointed from Peking.

Lo worked in the Communist underground press during the war of liberation and was sent to Hong Kong to found the New Evening Post after the war.

Sources in Hong Kong say he maintained a wide circle of foreign friends and had journalistic contacts with prominent Taiwanese in Hong Kong. An art collector and writer in his spare time, he is said to have made a lot of money from selling traditional Chinese scrolls and paintings obtained cheaply during the Cultural Revolution. He owned a house in England, where his son is being educated.

His standing with the Chinese Government was indicated in 1981, when he was elected to sit on the Chinese people's political consultative conference, an advisory assembly, as a representative of Hong Kong.

His daily column was regarded by China-watchers as one of the best-informed sources of information on Chinese foreign policy issues, particularly the Sino-U.S. relationship.

The valley that waits for war

BY PATRICK COCKBURN IN BEKAA

"THERE is a panic here" said a businessman in Baalbek, the largest city in Lebanon's Bekaa valley yesterday. But it emerged that he was speaking of the consequences of the collapse of the local hashish business and not the fear of war between Israel and Syria.

If there is another conflict the Bekaa will be the battlefield. Last year the Israelis fought their way into the southern part of the valley to a point just south of the crucial Beruit-Damascas highway. The rest of the Bekaa is held by the Syrian army and the Palestine Liberation Organisation.

The rich red silt of the valley floor is some of the most fertile soil in the Middle East. Watered by the spring rain and the melting snow from the mountains which tower above it on either side, the Bekaa is green with vegetables and vineyards. Shepherds, often on horseback tend large flocks of sheep.

There is little sign of hashish, however, whose vivid green plants were previously a common sight and the main cash crop of the region around Baalbek, a bustling town centred on the ruins of huge Roman temples. The reason has little to do with war or peace. It is rather that Egypt, to which 80 per cent of the Bekaa's hashish previously went, has clamped down on the drug, making it difficult to sell.

The attitude of the new Lebanese Government in Beirut towards hashish is also unclear. This has increased the economic malaise in an area already battered by war. Electricity was restored two months ago – it comes from a hydroelectric power station under Israeli control in the southern valley and last year's bomb craters are covered in grass. But beside the road there are fresh scrapes of earth where Syrian tanks dig themselves in.

There were no signs yesterday of the mutiny reported to have taken place among Palestinian forces. It is in any case clear that the Syrians are in absolute control of the area. The main Palestinian refugee camp at Baalbek is calm.

The Bekaa has lived too long in expectation of battle for the atmosphere to be tense.

FINANCIAL TIMES, published daily except Sundays and holidays. U.S. subscription rates $420.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing centres.

Syrian contracts awarded to East Bloc companies

BY PATRICK COCKBURN, MIDDLE EAST CORRESPONDENT

SYRIA IS awarding a series of contracts to Soviet and East European companies which Western companies thought they were going to win before last summer's Israeli invasion of Lebanon brought closer relations between Moscow and Damascus.

The most important of these contracts is a \$200m (£127.6m) power station called Damascus South which the Swedish company ASEA, in association with Creusot Loire of France, believed they were about to win. Other bidders were *Mitsubishi of Japan and Brown* Boveri, the West German electrical company.

The Syrians recently asked for the time for bids to be extended, making original pricing estimates unrealistic and leading to all the Western companies pulling out. Diplomats say that this was in order to award the contract to the Soviets.

Syria has also for the first time bought three TU154 medium range Soviet passenger aircraft for \$51.6m. Ten per cent of payment is in cash and the rest is to be paid over eight years at 3 per cent interest.

British consultants Henderson Busby Partners have also lost a contract to carry out a modernisation study for Syrian *railways. The* contract was signed but not ratified and has now gone to a Soviet company.

Soft loans to finance projects are all the more necessary to Syria at the moment because of a shortage of foreign exchange. There is now a six-month delay between the Government granting an import licence to a Syrian private business or state organisation and the opening of a letter of credit. This is leading to a fall in imports and some minor shortages of consumer goods.

The Syrian financial difficulty seems to stem primarily from an increase in defence expenditure, as a result of last year's war. It is likely, however, that the Soviets are now providing weapons on a credit basis and the award of Syrian contracts to Soviet companies may be Syria's quid pro quo.

The Saudis are still giving aid to Syria at the rate of about \$800m a year and the other Gulf states are also making contributions. Last year total aid from the Gulf states is said by diplomats to have reached about \$1.2bn.

The figure may be curtailed *this year by a fall in donors'* oil revenues. Syria also gets part of its oil imports from Iran at a reduced price, including 1m tons free.

With 75 per cent of imports coming through the state organisations, the private sector in Syria is being progressively squeezed. In seeking an import licence, businesses have to put down 15 to 25 per cent of the value of the letter of credit they are seeking, but may not be able to open the letter of credit for up to six months.

British companies last year exported £89.5m worth of goods to Syria, mainly machinery, chemicals and pharmaceuticals. However, this does not include defence related goods such as Land-Rovers and communications equipment.

● *The six-nation Gulf Co*-operation Council will apply a new unified customs levy of between 4 and 20 per cent on imported goods from September 1, a United Arab Emirates Ministry official said, Reuter reports from Abu Dhabi.

The decision was made in Riyadh last week during a meeting of the Council's finance ministers. The Council groups Saudi Arabia, Bahrain, Qatar, Kuwait, the UAE and Oman.

Member states of the two-year-old Council have signed an economic agreement designed to establish a common market.

World Economic Indicators

RETAIL PRICES
(1975 = 100)

	Mar. '83	Feb. '83	Jan. '83	Mar. '82	% change over previous year
UK	243.2	242.8	241.7	232.5	4.6
W. Germany	138.6	138.7	138.6	133.9	3.5
France	221.6	219.6	218.0	203.3	9.0
Italy	333.6	330.6	326.3	287.3	16.1
Netherlands	155.3	155.0	154.7	151.1	2.8
Belgium	168.0	167.3	166.3	154.1	9.0
U.S.	182.0	181.7	181.8	175.6	3.6
Japan	149.1	148.4	149.0	146.0	2.1

Source: Eurostat

Baldrige bid to smooth U.S.-Asian trade links

By Nancy Dunne in Washington

MR MALCOLM BALDRIGE, U.S. Commerce Secretary, is due to arrive in Tokyo today on the start of a 10-day Asian trip during which he will attempt to smooth troubled trade relations between the U.S. and China and Japan.

In Tokyo he will meet Prime Minister Yasuhiro Nakasone to push for a reduction of barriers to American exports and for increased sales of U.S. high technology to Nippon Telegram and Telegraph.

On U.S.-China relations, the trade climate has been marred by a stalemate in negotiations over American textile quotas and by political disputes, the foremost of which is U.S. ties with Taiwan. Total trade dropped last year to \$5.2bn (£3.3bn) from \$5.5bn in 1981, and, if relations do not improve, it is likely to decline again this year.

"I would hope we could get trade issues put in one compartment and not let them get interwoven with political issues," Mr Baldridge said on Friday.

He said that the U.S. views the textile melee as "a regular commercial trade dispute, a normal part of Western life," but that the Chinese look at it "differently."

The U.S. imposed unilateral quotas on 33 categories of Chinese textiles after negotiators in January failed to reach an agreement about the level of increase of Chinese textiles.

In the acrimony which followed, the Chinese claimed that U.S. negotiators had been "dishonest," and U.S. officials said the talks had been plagued by Chinese procrastination, inefficiency, and secrecy.

Textile negotiators recently completed their sixth set of talks with some progress made, according to Mr Baldrige, who said they will meet again "in the near future."

Despite the Reagan Administration's efforts to contain the sale of strategically important high technology equipment to Communist countries, Mr Baldrige said a steady increase in U.S. technology transfers can be accomplished if it is "accompanied by friendly relations."

He said the U.S. offers China "a good fit for its needs." China is seeking to develop its offshore oil fields, coal reserves, hydroelectric power and telecommunications networks, and Mr Baldrige will tell them that U.S. technology is the best available.

U.S. investment in China has been hampered by a hazy legal system and secret regulations, U.S. officials say.

The large, high-powered delegation of officials accompanying him will divide into three working groups to discuss industrial cooperation, trade relations including controls and barriers and commercial law and patents.

Brazil set to join top car producers

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

CAR PRODUCTION in Brazil by 1985 will be well ahead of output in the UK.

By that time Brazil will be neck and neck with Spain, contesting for sixth place in the world league of car producers.

And, according to the latest forecasts by DRI Europe, the London-based former Economic Models group, by 1985 North American car production will be re-established at the top of the league, taking that position back from the Japanese.

Brazilian car production and assembly reached 900,000 in 1980 but dropped sharply in subsequent years. DRI estimates it will be 769,000 this year and by 1985 will reach 1.23m.

Compared with this, UK car output is forecast to be 9/7,000 this year, is expected to touch 1m in 1984 but in 1985 DRI looks for production of only 988,000 cars.

Meanwhile, Spanish production will be boosted this year by the new 250,000-a-year General Motors' plant and should reach over 1m, rising to 1.18m by 1985.

Dealing with the short term, the DRI world automotive forecast report suggests that the fundamentals of the world economy provide little support for a recovery in the motor industry during 1983.

"With the exception of North America, where gathering recovery will prompt a reversal of trends, the current year will prove little better — and in some cases worse — than 1982," it states.

In Western Europe total car demand will be pulled down by problems in France — mainly political and labour — and Italy — where the auto industry went into recession later than the rest of Europe — so that production will barely exceed last year's 9.9m.

DRI points out that "recent product spending of the industry stands starkly against this constrained short term demand outlook. Overcapacity in the industry will make it impossible for most participants to earn an adequate return on this investment."

However, the medium term outlook provides a rather brighter prospect.

"As the North American recovery gathers pace and that of Europe and, later, Latin America follow, the car industry will draw sustenance from its traditional areas of strength. World economic recovery will allow the strong underlying demand for private transportation to be translated into new high levels of car sales.

"As consumer confidence is restored, 1984 and 1985 will witness a strong recovery for the industry."

The report adds that, though demand in Western Europe will reach a new peak of 11m by 1988, Europe's export surplus is still diminishing. The total of 2m cars exported annually in the early 1970s from Europe will have fallen to only 500,000 in the early 1980s, implying that total output will remain below the record achieved just prior to the first oil crisis.

The report provides forecasts of new car registrations and production—by manufacturer for major countries—cars in use, exports and imports for 25 countries.

"DRI World Autos Forecast Report." \$1,600 or £900 from DRI Europe, 30 Old Queen Street, London SW1H 9HP.*

	1983	1984	1988
NEW CAR SALES (millions)			
West Germany	2.22	2.27	2.54
France	1.91	2.00	2.06
United Kingdom	1.68	1.65	1.71
Italy	1.61	1.70	1.72
Total Western Europe	10.00	10.30	11.09
United States	9.01	10.34	11.36
Japan	3.13	3.20	3.28
Brazil	0.62	0.79	1.21
Spain	0.54	0.57	0.70
CAR PRODUCTION (millions)			
West Germany	3.63	3.73	4.13
France	2.68	2.76	2.84
United Kingdom	1.00	1.01	0.96
Italy	1.40	1.49	1.53
Total Western Europe	10.41	10.78	11.50
North America (inc. Canada)	7.17	8.13	8.93
Japan	7.08	7.58	8.05
Brazil	0.77	0.97	1.40
Spaio	1.02	21.14	1.36

Source: DRI World Automotive Forecast Report April 1983

SHIPPING REPORT

Bulk carrier prices remain firm after recent uplift

BY ANDREW FISHER

BULK CARRIERS were at the centre of attention in second-hand shipping markets last week, with prices staying firm after the uplift in recent months.

One British flag bulk carrier, the Clyde-built Baron Napier of 26,900 deadweight tons, went to Greek buyers for \$7.5m (£4.78m). The El General, four years younger and built in 1980 at a Japanese yard, is likely to go for nearly \$9.5m. This ship, suited to work on the Great Lakes, is larger at 27,300 dwt.

The fact that second-hand values have risen does not, however, mean that freight markets are recovering sharply, though there has been some improvement. Denholm Coates reported that dry cargo rates continued to edge higher last week.

Denholm said a lot of the better fixtures were not being reported. "While this is not unusual at any time, the pressure from charterers for private and confidential clauses underlines their fears of further rate improvements."

The activity in secondhand markets reflects concern among shipowners lest they be left behind now that prices have stopped falling. The G.P. Livanos group of New York, a heavy buyer of bulk carriers some two months ago, was reported by shipbrokers Galbraith Wrightson as having paid around \$9.5m for the 35,160 dwt Becknes, built in Japan in 1977.

The tanker market began last week with a large amount of enquiry, but the impetus was not kept up. But sentiment, according to Galbraith, has improved.

Bombardier joint bid for Singapore subway deal

By Robert Gibbens in Montreal

BOMBARDIER, THE Montreal based transport equipment group, has linked up with two other Canadian companies to bid for a major portion of the proposed \$2.5bn Singapore subway system. All three had been prequalified as bidders.

Bombardier, along with Metro Canada International of Toronto —a joint company owned by the major engineering and construction management group Lavalin of Montreal — and Urban Transportation Development—owned by the Ontario Government—will now make a joint bid for about \$600m of Singapore contracts.

N-reactors for Egypt

By Charles Richards in Cairo

WEST GERMANY is confident of selling nuclear reactors to Egypt, but will not finance their purchase.

Mr Heinz Riesenhuber, the West German Minister of Research and Technology, said in Cairo that his government's policy was not to finance this kind of project, but only to provide some kind of guarantees.

He said Kraftwerk Union, the West German company which is bidding for the contract, would have to finance the project itself.

The Egyptian Nuclear Power Plants Authority has invited companies from France, the U.S. and West Germany—the three countries with the appropriate technology that have signed nuclear agreements with Egypt—to tender for the supply of two 1,000 Megawatt pressurised water reactors to be built at Al Daba on the northern coast, 160km west of Alexandria.

OVERSEAS NEWS

Unionists in plea for expansion

By John Lloyd, Labour Editor

TRADE UNION leaders from the major Western economies have urged President Ronald Reagan to promote policies which would aid worldwide recovery and attack unemployment.

The Trade Union Advisory Committee of the Organisation for Economic Co-operation and Development (OECD) met Mr Reagan, who will preside over the Williamsburg summit at the end of this month, to press on him the proposals agreed by the OECD's trade union centres at their meeting in Paris

These include:

- co-ordinated expansion by the major Western economies;
- immediate commitment to policies for full employment;
- a reform of the international monetary system to restore the stability of exchange rates;
- massive increases in aid and credit for the Third World;
- intensification of energy savings and alternative energy source development.

In a statement presented to the U.S. President, the union leaders said that "full employment and improvement in labour standards must once again be recognised as a necessary condition for a properly functioning, open trading system. Competitiveness must not be sought through unemployment and cuts in wages and living standards.

"Effective measures for trade liberalisation are fruitless unless trade flows are translated into a net increase in jobs and productive economic activities in all trading partners."

Polish industrial output rises 10% in first four months

BY CHRISTOPHER BOBINSKI IN WARSAW

POLAND'S industrial production fell 7.2 per cent last month compared with March, but showed growth of 10 per cent in the first four months of the year against the same period of 1982, according to government figures. The April slump is blamed on a fall in output in the food industry where meat and alcohol production were lower.

Manufacturing industry's output grew at a rate of 10.5 per cent for the first four months and continued to outstrip growth in the extractive sector, which was 4.3 per cent in this period, compared with January to April 1982. This reverses last year's trend, when the recovery in coal production brought about by longer working hours, pulled up industrial production figures as a whole.

This year coal production is running at last year's level, with the April figure slightly down.

Exports to hard currency countries continued to be weak, with a growth in the first four months of 1.9 per cent, put at $1.48bn in value. Hard currency imports, however, grew by 25 per cent, at $1.21bn, giving a hard currency surplus on the first four months of the year of $270m. This compares with $480m for the first four months of 1982.

Retail sales volume grew by 6 per cent in April compared with April 1982, with food sales at the same level, and sales of consumer durable goods and agricultural machinery up by 14 per cent. Stocks of consumer goods are growing, however, with their value 25 per cent higher at the end of April than at the end of December 1982.

- The editor of Warsaw's leading newspaper warned the Catholic Church against applying double standards in a fresh sign of friction between state and church before next month's Papal visit, Reuter adds from Warsaw.

Mr Zdzislaw Morawski, editor-in-chief of Zycie Warszawy and a former state television correspondent at the Vatican, said in a front-page editorial the church was twisting its moral role by demanding an amnesty for martial law offenders.

The editorial referred to appeals by Cardinal Jozef Glemp, the Polish episcopate and Pope John Paul, for an amnesty

It reflected criticism made by Communist Party leader General Wojciech Jaruzelski last week of certain priests who he said were driven by unbridled anti-communism.

Gulf War 'hits lending to Iraq'

BAGHDAD – President Saddam Hussein of Iraq said yesterday that some countries had reconsidered lending his country money, partly because of its Gulf War against Iran.

The official Iraqi news agency (INA) reported that the Iraqi President told Al-Watan Al-Arabi, a Paris-based Arabic-language magazine, in an interview that the situation of Iraq's economy after 32 months of war was different from pre-war days.

"Some of our brothers who used to extend loans to us have reconsidered their stand, either because of the long war period or because of lack of their capabilities," he said. He said Iraq was considering alternative ways of exporting its oil, including a new pipeline through Jordan.

Before the war, Iraq exported about 3m barrels of oil a day, but closure of the Shatt al-Arab waterway into the Gulf has left it dependent on a single pipeline through Turkey to the Mediterranean with a daily capacity of 700,000 barrels.

Saddam Hussein said other possibilities were to build a pipeline through Saudi Arabia to the Red Sea or expand the Turkish one.

He also disclosed a previously unannounced recent visit to the Soviet Union by his Deputy Premier and Foreign Minister, Tareq Aziz, saying Iraq's relations with Moscow were now good.

- Ministers from two Gulf states will visit Iran and Iraq today in a new effort to get the warring neighbours to agree on capping damaged Iranian oil wells, the Gulf news agency said today.

It said Kuwaiti Foreign Minister Sheikh Sabah al-Ahmed al-Sabah and United Arab Emirates (UAE) Foreign Affairs Minister of State Rashid Abdulla would visit Baghdad and Tehran.

Reuter.

Turkey 'can do without the West'

ANKARA – Turkish President Kenan Evren said yesterday that Turkey could do without the Western world if it continued to try to make life difficult for his country.

General Evren accused Western powers of "byzantine intrigues" to expel Turkey from the Council of Europe, impose restrictions on Turkish exports to Europe and file complaints against its human rights record.

Turkey's Nato and European allies have at times expressed concern at the military nature of the Turkish Government and its tough measures to stamp out political violence.

"Turkey has experienced such activities throughout its history. We have existed without the Western world before and will continue to exist with or without them." Gen Evren said.

The President, who took power in the 1980 military coup, is touring the country to explain new laws on elections and political parties. The laws are expected to be ratified soon in advance of elections promised for November 6.

- Turkey yesterday described the United Nations call for the withdrawal of foreign troops from Cyprus as "unbalanced," and hinted there could be "unexpected developments" if Greek Cypriot attitudes continued.

A Foreign Ministry spokesman said the UN resolution gravely distorted the facts about Cyprus, which has been divided since a Turkish invasion in 1974 and could seriously hamper the search for a solution to the island's troubles.

Agencies

graph option. As a quid proquo would be increased. "Any talk A fourth option is in design

World recovery will boost exports

JAPANESE economic growth has slowed to a moderate 3-4 per cent since the two oil crises. It entered its current recession in the summer of 1980. In the spring of 1981 the recession appeared to turn, but it slipped again in 1982.

The general consensus among the Government, banks and private research organisations is for some recovery in the course of this year. Economic recovery in the U.S. and a consequent pick-up in world trade is expected to have a favourable impact on Japanese exports.

The exchange rate, although unstable since the beginning of this year, recovered from its unexpectedly low 1982 rates. As 60 per cent of export contracts and nearly 100 per cent of import contracts are quoted in foreign currencies, a fall in the yen rate—all other things being equal—sees Japanese purchasing power effectively flowing overseas.

The February survey by the Bank of Japan found companies planning to cut their investment in plant and equipment this year from the levels of 1982, the first such decline for five years.

The manufacturing companies surveyed said they expected their operating profits to fall 13.7 per cent in the second half of fiscal 1982 on the previous half-year, a downward revision from a 5.8 per cent fall for the same period in the previous survey.

Corporate bankruptcies in February totalled 1,334, the second highest level on record for a February. They reflected generally depressed profits and the difficult operating conditions which face small and medium-sized firms.

Unemployment fell in March to 2.6 per cent, down from 2.7 per cent in January and February. It ended the fiscal year at 2.5 per cent, the highest level of unemployment since 1955. The Ministry of Labour attributed the March decline to a fall in the number of women seeking work. Job security among Japanese youth, as in all industrial economies, has shown a considerable decline over the past year as the table illustrates.

With share prices reaching ever-increasing highs on the Tokyo Stock Exchange, foreign trading activity is becoming increasingly important. Europe, South-east Asia and the U.S. account for 63, 21 and 14 per cent respectively in overseas activity.

Japanese industry is dominated by a small number of very large business groupings, made up of formally distinct parts with many links between them, operating in all the major sectors of the economy with a bank and trading company in each group.

Both the U.S. and EEC have been highly critical of these groupings, labelling them typical of the socio-economic barriers peculiar to Japan that obstruct foreign access to the domestic market. It is vital that Japan, by encouraging imports, frictionless exports, industrial and technological co-operation, prevents protectionism and promotes free trade.

Japan's formal reliance on America for military protection has enabled it to restrict defence spending to less than 1 per cent of gross national product.

Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Charts Department

GROSS NATIONAL EXPENDITURE
Ministry of Finance forecasts*

	Y trillion 1981	1982	1983	% change 1982	1983
Private final consumpt. expend.	147.1	157.6	169.3	7.2	7.4
Private residential invest.	14.8	15.1	15.0	1.9	4.3
Private plant & equip. invest.	39.1	39.2	40.7	0.2	3.9
Increase in private stock	1.4	1.0	1.4	−27.4	37.8
Government expenditure	49.7	51.4	51.6	3.3	0.4
Final consumption expend.	25.9	26.9	27.9	3.8	2.3
Fixed capital formation	24.0	24.5	24.1	1.8	−1.6
Exports	43.3	45.1	46.6	4.0	3.5
Imports	41.6	42.6	43.7	2.5	2.5
GNP	253.8	266.7	281.7	5.1	5.6
Real GNP	—	—	—	3.1	3.4

* Figures relate to financial years

Source: Ministry of Finance

Labour

	Employment 1980=100	Productivity 1975=100	Earnings 1980=100
1972	96.2	89.0	38.5
1973	96.8	104.6	46.8
1974	97.0	104.1	59.5
1975	95.4	100.0	68.3
1976	95.4	112.3	76.9
1977	96.7	118.0	83.4
1978	97.2	127.4	88.8
1979	98.5	142.8	94.1
1980	100.0	156.0	100.0
1981	101.9	161.5	105.3
1982	103.1	163.8*	110.0

* January-November.

Source: Ministry of Labour

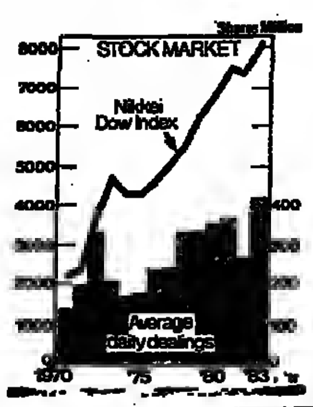
EMPLOYMENT SITUATION
Senior high school graduates (March 1983)

School Courses	seeking* ratio	security† ratio	Year ago
General	23.0	65.6	68.0
Agricult.	69.7	58.9	59.3
Industry	74.5	71.5	72.7
Commerce	77.0	68.8	71.4
Fisheries	73.3	52.3	54.9
Home	65.0	69.4	71.1
Nursing	29.9	25.4	27.9
Other	16.3	64.3	64.5
Public	37.5	67.6	68.8
Private	38.4	64.7	69.8
Total	37.7	66.8	69.0

* Job seeking/total students.
† Job getting/job seeking.

Source: Oriental Economist

Finance



SHARE OWNERSHIP*

	% share of total ownership 1962	1972	1982	% share of total activity 1982
Financial inst.	21.3	32.6	36.5	4.3
Individuals	46.7	37.2	28.5	40.9
Business corps.	18.7	23.6	26.3	5.8
Foreigners	1.7	3.5	4.6	11.3
Invest. tst.	8.6	1.3	1.8	4.5
Securities cos.	2.8	1.5	2.1	31.9
Gvt. & pub. inst.	0.2	0.3	0.2	1.3

* Based on dealings of 12 (14—1982) largest security companies on Tokyo S.E.

Source: Phillips and Drew

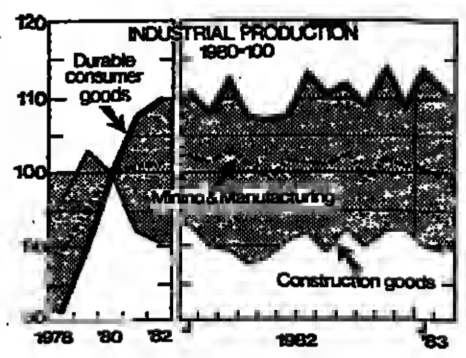
FOREIGN INVESTMENT
Settlement basis $m

	Foreign inv. in Japanese secs. Bonds	Stocks	Japanese inv. in foreign secs. Bonds	Stocks
1973	−19	−638	1,365	479
1974	237	−1,133	−166	−68
1975	924	590	6	−30
1976	1,714	−108	136	−52
1977	2,093	−775	1,888	−36
1978	2,463	−805	5,716	80
1979	1,741	−685	5,495	404
1980	5,330	4,989	4,285	344
1981	5,772	3,520	5,808	240
1982†	2,675	735	4,751	166

† January-September. * Public and corporate bonds.

Source: Oriental Economist

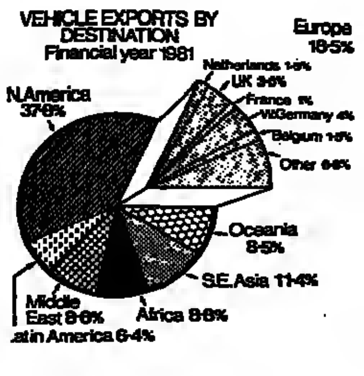
Industry



VEHICLE PRODUCTION By manufacturer, 1982

	Units (000s)	Share of domestic sales	Share in total production 1982 %	1976
Toyota	3,145	38.8	29.3	31.7
Nissan	2,408	28.2	22.4	29.4
Toyo Kogyo	1,110	8.7	10.4	9.1
Honda	1,020	6.4	9.5	7.1
Mitsubishi H.	969	8.4	9.0	8.3
Suzuki	603	—	5.6	2.6
Fuji Heavy	514	—	4.8	3.1
Daihatsu	464	1.3	4.3	3.3
Isuzu	405	4.6	3.8	4.3
Hino	61	0.9	0.6	0.8
Nissan Diesel	37	0.5	0.3	0.3
Total	10,737	—	100.0	100.0

Source: MITI



SHIPBUILDING

	'000 gross reg. tons	World share%†
Under construction		
1975	12,497	36.1
1978	3,170	20.4
1981	5,543	33.9
1982*	5,246	31.4
Launched		
1975	17,740	51.9
1978	4,801	26.4
1981	9,140	53.7
1982	6,480	50.9

† Excluding China and USSR. * First three quarters.

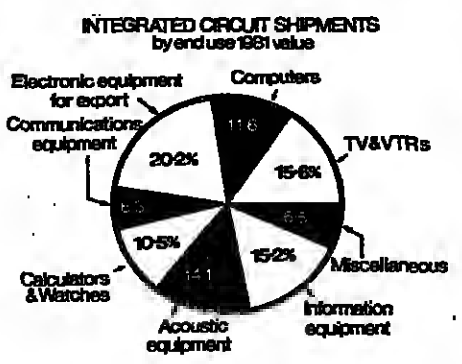
Source: Lloyds Register of Shipping

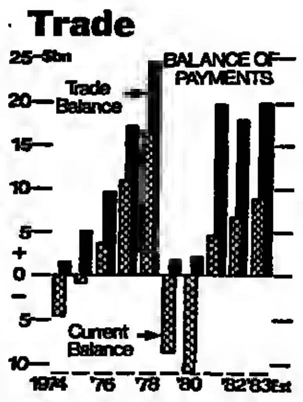
DATA PROCESSING
Sales targets, seven major computer manufacturers

	Ybn Fisc. 82	% increase 82/81	83/82
Fujitsu	530	+18.2	+20
Japan IBM	495	+15.4	+25
NEC	389	+17.0	+20
Hitachi	330	+14.6	na
Oki	130	+19.2	+16
Toshiba	130	+34.8	+30
Mitsubishi	88	+20.5	+15

Source: Grieveson, Grant and Co

Trade





JAPANESE EXPORTS TO EEC 1982

	$m	% total exports*
Total	17,064	12.3
Foodstuffs	87	4.2
Textiles	421	6.8
Chemicals	682	10.7
Non-metallic min.	113	5.8
Metal products	703	3.3
Machinery, equip	12,979	14.3
TVs	169	11.4
Radios	413	17.2
Tape recorders	2,210	40.4
Vehicles	2,321	9.4
Scientific, optical	1,483	30.6
Other	2,079	18.6

* EEC share in exports

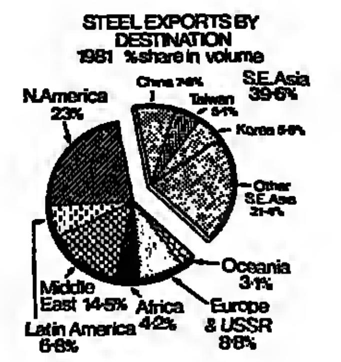
Source: Japanese Tariff Association

FALL IN STEEL EXPORTS TO EEC
1,000 metric ton

	Italy	Benelux	UK	Germany	Total
1971	645	745	328	151	2,002
1972	262	434	313	383	1,516
1973	210	383	219	420	1,278
1974	218	278	295	237	1,090
1975	209	336	386	551	1,640
1976	249	440	245	517	1,616
1977	164	335	170	536	1,286
1978	51	184	153	191	618
1979	123	171	169	254	754
1980	99	105	231	154	633
1981	15	61	32	70	205
1982*	11	62	74	58	216

* January-October.

Source: Japanese Iron & Steel Federation

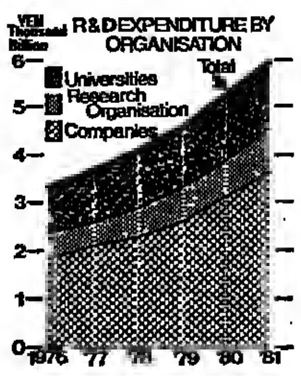


Research and development

R & D EXPENDITURE
Ybn (Fiscal years)

	Total	Natural sciences	Total against N.I.
1971	1,532.4	1,345.9	2.33
1972	1,791.9	1,586.7	2.31
1973	2,215.8	1,980.9	2.32
1974	2,716.0	2,421.4	2.42
1975	2,974.6	2,621.8	2.41
1976	3,320.7	2,941.4	2.40
1977	3,651.3	3,233.5	2.39
1978	4,045.9	3,570.0	2.42
1979	4,583.6	4,063.6	2.56
1980	5,246.2	4,683.8	2.71
1981	5,982.4	5,364.0	2.96

Source: Oriental Economist



Defence

DEFENCE SPENDING
1980 Fiscal year

Nation*	Per cap. $	% of govt. expnd.	% of GNP
USSR	574	na	11-13
U.S.	644	23.3	5.2
China	56	18.0	9.0
W. Ger.	410	22.2	3.3
UK	437	10.7	4.9
Saudi Arabia	2,518	28.1	15.0
France	374	17.5	3.9
Japan	75	5.2	0.9
Italy	124	0.2	2.4
Holland	374	7.3	3.4

* Ranked by total defence spending.

Sources: The Military Balance 1980-81; IISA and Phillips & Drew

DEFENCE EXPENDITURE

	Annual defence expend.	Growth in nominal GNP	Defence expend. as % GNP
1973	16.9	21.0	0.82
1974	16.8	18.4	0.79
1975	21.4	10.0	0.87
1976	13.9	12.2	0.89
1977	11.8	10.9	0.90
1978	12.4	9.6	0.92
1979	10.2	7.3	0.94
1980	6.5	7.7	0.93
1981	7.6	5.2	0.95
1982	7.8	5.1	0.98
Ave. 73-82	12.4	10.6	0.90

Source: Phillips and Drew

DEFENCE CONTRACTORS
Procurement contracts 1981 fisc. yr.

	Value Ym	% of total	Compy. sales %
Mitsubishi Heavy	105,215	13.9	6.2
Kawasaki	60,264	7.9	7.9
Mitsubishi Elec.	58,613	7.7	4.5
Ishikawajima-Harima Hvy.	35,668	4.7	4.6
Toshiba	32,194	4.2	1.8
Hitachi Zosen	17,245	2.3	3.6
NEC	16,380	2.2	1.6
Mitsui Zosen	15,448	2.0	4.2
Japan Steel	14,654	1.9	10.7

Source: Phillips and Drew

Energy

NUCLEAR POWER DEPENDENCY
International comparisons, 1980

	Output 100m KWH	Depend. %	World share %
Switz.	136.6	28.4	2.0
Sweden	254.0	27.1	3.8
France	580.0	23.6	8.6
Belgium	110.0	21.3	1.6
Finland	66.8	17.1	1.0
Japan	790.9	13.8	11.7
Bulgaria	57.0	13.8	0.8
Taiwan	63.0	12.9	0.9
Britain	329.9	12.1	4.8
U.S.	2,519.4	11.3	37.4
World	6,739.1	8.0	—

Source: Japan Atomic Industrial Forum

UK NEWS

Missing Hunt's secrets

By Clive Wolman

THE MISSING Warwick investment manager Mr Keith Hunt developed a trading system for beating the world commodity markets which was capable of achieving the 88 per cent average annual profits he claimed to be making since 1978, according to his researchers.

In the four weeks since the disappearance of Mr Hunt, whose affairs are being investigated by a police fraud squad, five of his top researchers have been sifting through the mass of data and statistical analysis of commodity futures price movements which Mr Hunt had accumulated.

His staff believes 34-year-old Mr Hunt left Warwick so hastily, under pressure from the Trade Department to produce evidence of his market transactions, that he was unable to take with him any of his research material.

Mr Hunt took elaborate precautions to protect the secrecy of his trading system. The cellular structure of his 40-strong research team was designed to minimise communication between individual researchers.

Government has tough pay terms for civil servants

BY PHILIP BASSETT, LABOUR CORRESPONDENT

THE GOVERNMENT is putting to leaders of Britain's 530,000 white-collar civil servants tough proposals for a new pay determination system which will lay much greater stress in negotiations on market forces and managerial requirements.

The proposals are contained in a confidential document prepared by the Treasury and have been under discussion in secret talks between Treasury officials and general secretaries of the nine Civil Service unions based on the findings of the Megaw inquiry on Civil Service pay.

Both sides expected to reach agreement on a new pay system by next month, but the general election announcement may have slowed down that timetable.

The Treasury and the Council of Civil Service Unions have been determined not to disclose details of the discussions before full agreement is reached, though indications of the union leaders' effective acceptance of many of the Megaw report's central proposals have already emerged in a draft agreement prepared by the general secretaries.

The Treasury's confidential draft agreement proposes the establishment of a Pay Information Board, as suggested by the Megaw report, to collect information on pay movements in the outside middle or "inter-quartile" range of private sector pay settlements.

These would provide for major settlements every four years, with smaller-scale annual adjustments in between.

While the Treasury says the new board should agree with both unions and management its method of working, and offers limited consultation, it completely rejects union claims that the new board should only provide information, rather than evaluate it.

The document states: "Having sought the broadest possible measure of agreement on the above matters, the responsibility for determining the inter-quartile ranges of pay movements and of total remuneration levels shall be that of the board."

Companies get new guide on pensions

By Chris Cameron-Jones

A FIRST attempt to bring some uniformity to the pension fund jungle in British companies' financial reporting is published today, in draft form, by the accountancy profession.

The UK Accounting Standards Committee (ASC), which for a year has had a working party examining how companies should disclose the costs and liabilities related to employees' pensions arrangements, has issued its proposals in the form of an exposure draft, ED32.

Disclosure about pension funds, which for most companies are major financial commitments, is required to be made this year under the 1981 Companies Act.

The ASC proposals, therefore, represent the first real guidance on the way to satisfy the new legislation but do not guarantee full compliance with the law in every case.

The draft describes what should be mentioned in the actuaries' reports, but it leaves the much tougher problem of the valuation methods to be applied for further consideration.

Basically the proposals mean company accounts would have to show arrangements for pensions in an understandable manner; any legal obligation made to maintain the solvency of a fund; how a scheme is paid for; and the accounting policies employed.

They would also have to reveal the pension fund charge made in the profit and loss accounts, pointing to any special payments, and any commitment to change the rates of contributions.

ED32 – Disclosure of Pension Information In Company Accounts. Publications Dept., PO Box 433, Chartered Accountants' Hall, Moorgate Place, London, EC2P 2BJ. Price £1.

BL's hopes for new car boom

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

BRITISH LEYLAND's output could jump by at least a third if Britain's new car market was boosted to 2m a year.

This would have significant benefits for the UK motor component industry and suppliers of raw materials.

The Society of Motor Manufacturers and Traders (SMMT) has been pressing for the removal of the special 10 per cent tax on cars to help boost the market to 2m a year.

As part of its campaign, the SMMT today will link with the Confederation of British Industry for a conference in London attended by senior managers from the motor industry and its suppliers and Industry Secretary Mr Patrick Jenkin.

If BL holds its share at 18 per cent as the market moves from last year's 1.5m to 2m by 1986, the group's output would rise from 270,000 to 360,000. If, as BL hopes, its market share rises to 20 per cent, the improvement in production would be of 48 per cent to 400,000 cars.

The impact on importers such as Volkswagen-Audi, Fiat and Renault would not be so dramatic, adding well under 2 per cent to their individual sales totals. For the Japanese, assuming that they continued to restrict themselves to 11 per cent of the market, the increase in volume sales would be under 1 per cent.

The argument becomes slightly blurred because the major importer to Britain is Ford. If Ford retained its 30 per cent share while the market rose from 1.5m to 2m, its sales would rise from 450,000 to 600,000.

For some years 50 per cent of the cars sold by Ford in Britain have been assembled on the European Continent. If this continued, its UK output would still rise from 225,000 to 300,000.

UK NEWS

London Trust ends Debrett's chapter

By Ray Maughan

LONDON TRUST, the City of London investment group, has ended its two-year association with the publishers Debrett's, the ancient chronicler of society's upper echelons.

Gentlefolk still do not like to talk about money so the consideration is not disclosed. But since the well-bred are just as much in tune as the well-to-do when it comes to the most fashionable method of striking a deal, the investment trust's 75 per cent holding has been acquired by a management consortium.

The management buy-out is headed by Mr Ian McCorquodale and Mr Robert Jarman, respectively chairman and managing director of the publishing company. A couple of other, unnamed, investors have also joined the consortium.

The transaction has been negotiated in the latest business textbook style, and the final price will be calculated on an "earn-out" basis. Debrett's does not say how fast and how far profits have to be achieved under the payment formula.

London Trust, which numbers among its unquoted investments companies such as Swishdale, Peculier Properties, London Trust Cultural Productions and Bloomsbury Investments of the British Virgin Islands, has been clearing out its portfolio of unlisted holdings.

The Debrett's consortium was formed two months ago in the knowledge that the business was up for sale. Competing tenders from a number of other publishing houses are understood to have been submitted.

Debrett's has been losing money recently, but Mr Jarman was confident yesterday that "we're going to be profitable."

The company has negotiated "lots of American and Canadian deals," he said. Coming shortly is Debrett's Guide to the Texas Peerage in association with Putnam, the New York publishing house, and further guides to California and the Deep South are planned.

Computer company goes for U.S. office market

BY RAYMOND SNODDY

A SMALL British company, Future Technology Systems (FTS), is making its first major entry into the international market this week.

It is going to the heart of the U.S. industry – the National Computer Conference at Anaheim, California – with its multi-function work stations and personal computers for the automated office.

FTS has designed a work station which handles data and word processing, telex, viewdata and communications for the OEM (own equipment manufacturer) market.

Managing director Mr Peter McHugh says of the California trip: "I hope to identify major OEM customers in the U.S. who realise that we have a product substantially in advance of most products emanating from that country."

Less than three years ago Mr McHugh, who has worked in merchant banking as well as the computer industry, was up to his neck in borrowings and a second mortgage as be took a prototype around the City of London seeking financial banking.

Now the company employs 120 people in Beith, near Glasgow, a total that will grow to 170 by the end of the year. Turnover this year, its first full year of operations, is expected to top £6m and a private placement of less than 20 per cent of its shares later this month is expected to value FTS at between £9m and £12m.

The company plans to seek a quotation either on the Unlisted Securities Market or the London Stock Exchange in 1985. "Our aim is to become the DEC of the office automation industry," says Mr McHugh in a rather grandiose reference to Digital Equipment Company, the dominant minicomputer group.

Nonetheless, FTS is, for Britain, an unusual example of collaboration between the academic and the business world.

One of the company's founders, and the research director, is Professor Martin Healey, professor of electronics and electrical engineering at Cardiff University.

Professor Healey and Mr McHugh met when they did consultancy work for the same company. They saw there was a market for a work station which would eliminate the need for many separate pieces of office equipment and have a fast 16-bit microcomputer

Professor Healey and his research students produced a prototype, and the collaboration with Cardiff continues. Design research is done by Professor Healey at the university and development work follows at Beith.

Mr McHugh and Professor Healey were joined by Mr David Shear, an expert in computer storage, and within months the company bad raised £1m in return for 60 per cent of the equity.

The unlisted investment arm of Norwich Union, the Scottish Northern Investment Trust, and the Scottish Development Authority each hold 20 per cent. A recent benchmark test designed by Personal Computer World put the FTS personal computer ahead of the leading competition – machines produced by companies such as Olivetti, IBM and Apple.

Output of steel cut by weeks of strike

STEEL production in Britain averaged 291,300 tonnes per week in April, 7.5 per cent lower than in March and 7.3 per cent lower than in April 1982. This setback breaks a three-month rising trend, but it was caused by a three-week strike at the British Steel Corporation (BSC) works in the Sheffield area.

Regional figures show March-to-April production increases in all major areas, except Yorkshire and Humberside, where the decline was 30 per cent to 75,400 tonnes per week, and Scotland, where production was only fractionally down to 39,800 tonnes per week.

Port pickets

THE PORT of Dublin faces widespread disruption from today when striking dockers place pickets on entrances to the port area. Ferry services to Britain could be affected, depending on how many workers refuse to pass the pickets.

Ireland also faces widespread power cuts on Wednesday when electricity workers stage a one-day strike as part of a challenge to Government pay policy.

New technology without the redundancies

BY OUR LABOUR STAFF

MANY employers are agreeing to rule out compulsory redundancies when they introduce new technology but are refusing union demands for more pay and shorter working hours as the price for accepting it.

That emerges from an analysis of 54 technology agreements signed by white-collar unions in the public and private sectors, contained in a report to be published shortly by the Institute of Personnel Management (IPM).

The report finds that most agreements undertake to avoid compulsory redundancies and to retrain and transfer existing staff to other jobs as they become available.

Provisions on health and safety featured prominently, with about half the agreements providing for the eye-testing of operators required to work with visual display units.

In more than two thirds of agreements, managements undertook to disclose information to unions in advance of any change in the type of equipment to be introduced, the skills needed and its likely impact on staffing.

Technology agreements have been highly controversial among managers since unions started pressing for them three years ago. Many are unwilling to negotiate technological change with unions or to accord it special status within existing procedures.

One recent report suggested that more than 200 agreements had been signed by mid-1982.

How To Introduce Technology: A Practical Guide For Managers, IPM, Camp Road, London, SW19 4UW. £5.95 plus 32p, from May 19.

Union anger at Trident plan

Financial Times Reporter

THE DISCLOSURE that Rolls-Royce is tendering for sub-contract work on the Trident missile system looks set to provoke an angry response from trade unions.

Mr George McCormack, convenor of shop stewards at the company's Hillington plant in Scotland, said yesterday: "I am amazed that management have made no efforts to consult with us on what is clearly a controversial subject. We are totally opposed, without qualification."

Paris 'Macs'

SCOTLAND'S only traditional Mackintosh raincoat manufacturer has won orders for 2,000 coats from two top Paris fashion houses, Emmanuele Khan and Hermes. The orders mean the Cumbernauld company, Traditional Weatherwear, will increase its staff by 25 per cent to meet the demand.

Motor trade accepts trial imports code

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

A CODE of practice intended to ease some of the problems created when cars are imported into Britain from other EEC countries has been "reluctantly" accepted by the Society of Motor Manufacturers and Traders (SMMT). The society will give it a trial run until the end of this year.

The code does not seem likely to open the way for a flood of unofficial car imports but it should eliminate a serious difficulty for fleet managers wanting to buy cars in other EEC countries.

Until now, a fleet buyer wishing to register any car in the UK has had to have a certificate stating that the vehicle meets British technical standards. Some official import companies and UK manufacturers bad been reluctant to issue these documents.

The new code insists, however, that in future the certificates will be provided. The snag for the fleets is that the manufacturer or his importer might want to inspect the car to establish that it does meet British standards and, if changes are required, that might involve a substantial charge.

Any individual who buys a car on the European Continent and uses it there before bringing it to Britain for his own use has never been required to produce the technical standard certificate – called a submac certificate – as the vehicle is treated by the Transport Department as a "personal import". This does not change.

Only time will tell whether the code will enable unofficial wholesalers to make headway in the British car market.

Sales of motorcycles continue to decline

BY JOHN GRIFFITHS

THE UK motorcycle trade, already rife with discounting, appears to be heading for a disastrous sales year. Registrations of powered two-wheelers in April were 25 per cent down on last year's, with no sign of the usual spring sales upturn.

Motor Cycle Association (MCA) statistics show 15,246 powered two-wheelers being registered in April, bringing the total for the year's first four months to 52,098. This is 17 per cent below the level of the corresponding period of 1982.

Even economical mopeds, for which the trade had been holding out high hopes in the wake of public transport problems, have suffered. Sales in the first four months were down 20 per cent at 18,119.

Scooters were the only sector to show any growth – 25 per cent. This, however, is on a very small base, and sales for the four months were still only 1,183.

Sales could well slip below the 200,000 mark, compared with 235,000 last year, 275,000 in 1981 and 315,000 in 1980.

The MCA is putting some blame on the introduction in February of legislation limiting learner riders to 125cc machines and other measures aimed at reducing motorcycle accidents.

It also acknowledges, however, that recession and unemployment – particularly among the 16–24 age group – are primarily responsible for the downturn.

Vehicle parts 'squeeze'

FINANCIAL TIMES REPORTER

VEHICLE MAKERS are taking advantage of over-capacity in the components industry to coerce suppliers into contracts at unrealistically low prices, the Receiver for a failed West Midlands company has claimed.

Mr Roger Dickens, of accountants Peat, Marwick Mitchell, says in the latest edition of The Engineer that the vehicle makers have used their position of being in a buyer's market to "screw all suppliers down" to uneconomic prices.

Mr Dickens, recently-appointed receiver and manager of Youngs Engineering, a Stratford-upon-Avon pressings supplier says the situation applies to manufacturers other than BL, despite the fact that BL's warnings that it would seek a substantially higher proportion of components from overseas if UK component makers could not compete more effectively received the most prominent publicity.

If UK-based manufacturers did not take a greater responsibility towards the UK components industry, "a lot of suppliers will fail," Mr Dickens said.

More cash to boost Doulton

Financial Times Reporter

ROYAL DOULTON, the Staffordshire pottery company which is part of the S. Pearson group, is to invest several million pounds in its 13 factories to stay in the forefront of world markets.

Mr Richard Bailey, chairman of Royal Doulton, announcing the company's plans, said: "The industry has been going through a difficult period in the last few years and we closed five factories, sold three and lost about 3,000 of our employees.

"As a result, we are now a slimmer and more efficient company and are able and prepared to respond to improving demand when it comes."

Royal Doulton's investment programme involves new machines, new technology and re-organisation in the factories.

"There will be changes in job practices and jobs, and some workers may have to move their place of work, but everyone will be fully consulted and I do not envisage any redundancies," said Mr Bailey.

The company was now recruiting and had taken on 100 workers.

Recovery 'could soon end'

By Jeremy Stone

THE RECOVERY in UK economic activity may already have been going on for so long that it is in danger of peaking out. This is Mr Roger Nightingale's view in Economic Outlook, published by stockbrokers Hoare Govett.

Mr Nightingale agrees with the official cyclical indications that the trough was reached about two years ago, inferring that the top of the current cycle, on past form, could be fairly near.

This conflicts with a more widely accepted view that activity has only recently started to recover.

Mr Nightingale thinks some of the statistics used to paint the gloomy recession picture are misleading. Published unemployment, he argues, greatly overstates the weakness of the labour market. Vacancies have been rising for 18 months and are 50 per cent above their low point, while real wages have continued to rise, confirming the message that demand for labour has been slowly improving for more than a year.

As the same time, most of the reported recession since 1979 has to be accounted for by the running down of stocks.

UK NEWS

Polls give Tories nearly 16% lead

BY PETER RIDDELL, POLITICAL EDITOR

THE CONSERVATIVES start the 1983 general election campaign with a larger lead over Labour, the main opposition party, than at the beginning of the 1979 campaign.

Despite its recent setback, the Social Democrat/Liberal Alliance also starts the campaign with a higher standing than the Liberals did on their own in 1979. (The Social Democratic Party was not formed at that time.)

The accompanying table lists all the nationwide opinion polls published between this year's local elections on May 5 and yesterday. For comparison, a poll from mid-April is also included.

BRITAIN GOES TO THE POLLS — JUNE 9

The current Conservative lead over Labour is between 12 and 21 per cent, according to the four polls taken entirely after the election date of June 9 was announced a week ago.

The average lead of 15.8 per cent compares with an 11.6 per cent margin for the Tories in the first half-dozen polls of the 1979 campaign. But if a 1979 poll showing a 21 per cent Conservative lead is excluded – and it was regarded as a freak at the time – the average Tory lead was then 9.7 per cent.

On voting day in 1979, the Conservative lead over Labour was just over 7 per cent. The Conservatives won 306 seats, Labour 203 and the Liberals seven. (Elections are won by the candidate with the largest number of votes cast, and are not based on proportional representation.)

The Alliance is also in a stronger position now than the Liberals four years ago – with a share of 15 to 21 per cent according to last week's surveys. This compares with a Liberal position at the start of the 1979 campaign of between 5 and 10 per cent, and a final share of the vote of just over 14 per cent.

The polls are generally from representative quota samples weighted, for instance, for age, sex and occupation. They are based on face-to-face interviews in about 100 of the 650 parliamentary constituencies.

The table excludes those people saying they do not know how they will vote, will not say or say they do not intend to vote. Only some of the polls give this information.

For instance, the Marplan survey published in the Guardian newspaper shows that out of a sample of 1,457 electors at the beginning of last week, 13 per cent were don't know, won't vote or won't say. This compares with 16 per cent in this category in March and 21 per cent in January.

The decline since then is almost entirely attributable to a drop in don't knows, from 11 to 4 per cent of those interviewed, benefiting Conservative and Labour.

The surveys in the table cover only voting intentions although polls also ask about attitudes to leaders and issues. For example, a Gallup survey in yesterday's Sunday Telegraph showed that, of the main party leaders, Mr David Steel of the Liberals had made the most favourable impact on television last week, and Mr Michael Foot of Labour, the least.

There are also surveys of specific seats and regions. For example, yesterday's Weekend World programme on London Weekend Television included a Harris Research Centre survey of 46 key Tory/Labour marginals. Based on a sample of 877 voters, this gave the Conservatives 45 per cent, Labour 39 per cent and the Alliance 15 per cent.

A separate survey, based on samples of 500 voters, shows that – both in seats which the Liberals hold or came second in 1979 and in SDP prospects – the Alliance's chances of gaining seats are poor.

OPINION POLL RESULTS

Interview date	Poll	Sample size	Cons	Lab	Alliance %	Others	Cons lead
April 11/13	Marplan (Guardian)	1,508	43	32	23	2	11
May 5/6	Harris (Observer)	1,053	45	36	15	1	9
6	NOP (Mail on Sunday)	1,069	47	34	18	1	13
6	Mori (Panorama)	1,080	45	34	20	1	11
4/9	Gallup (Daily Telegraph)	871	49	31½	17½	2	17½
10	Mori (Daily Star)	1,047	46	31	21	1	15
9/11	Marplan (Guardian)	1,457	46	34	18	1	12
11	Harris (TV Eye)	1,048	52	31	17	1	21
12	Mori (Daily Express)	984	48	34	15	2	13
1979	general election		45	38	14(Lib)	3	7
1983	local elections England and Wales		41	35	23	1	6

Cabinet reshuffle speculation grows

BY OUR POLITICAL EDITOR

Mr Francis Pym

BARELY has the election campaign started, than speculation has begun about ministerial changes if the Conservatives win. Much of this is merely politicians' gossip, but some is also deliberate propaganda aimed at promoting the chances of one candidate and damaging another.

The Sunday papers yesterday were full of stories about Mr Francis Pym, the Foreign Secretary, being a strong runner to take over from Mr George Thomas, who retired as Speaker with the dissolution of Parliament on Friday. The Speaker presides over the House of Commons.

Mr Pym's name was first mentioned about six weeks ago and the speculation both then and now has all the hallmarks of the party zealots in Downing Street and Conservative Central Office.

The more enthusiastic Thatcherites make no secret of their criticism of Mr Pym's performance – too gloomy and too much the Foreign Office man they say – and the Speakership is seen as an honourable way out for him. Mr Pym himself has dismissed the talk. He still believes he has a major role to play.

If Mr Pym does leave the Foreign Office, Sir Geoffrey Howe, the Chancellor, is his most obvious successor if the Tories win. Sir Geoffrey is spending an increasing amount of time on international questions, as chairman of the International Monetary Fund interim committee of finance ministers. He also has strong views on the EEC Budget, which is bound to preoccupy any Foreign Secretary after the election.

Who then is the likely Chancellor? The favourites are Mr Patrick Jenkin, the Industry Secretary, and Mr Nigel Lawson, the Energy Secretary, with Mr Cecil Parkinson, the chairman of the Conservative Party, as a long shot.

The extent of any reshuffle will depend on what happens to Mr William Whitelaw, the Home Secretary, who has become a "hate" figure for the zealots but has been central to the balance of the Government.

On one view, a major reshuffle involving Mr Whitelaw may be postponed for a year. This would incidentally allow time for Mr Norman Tebbit, the Employment Secretary, to complete the promised big Employment Bill, despite his ambitions to move to the Home Office.

Any post-election changes are also likely to include Sir Keith Joseph, the Education Secretary, and the much criticised Mr David Howell, the Transport Secretary.

Labour activists call for election unity

BY PHILIP BASSETT

LABOUR Party constitutional activists, whose efforts at party reform were instrumental in highlighting the party's internal divisions, are now urging unity around its existing policies, leadership and procedures because of the general election.

The party's two main constitutional groups, the Campaign for Labour Party Democracy (CLPD) and the Labour Co-ordinating Committee, have joined together to produce this "joint initiative" unity, even though they acknowledge that it is "clearly unacceptable" to the extremes at both ends of the party's political spectrum.

A CLPD document on the initiative, which is being circulated to affiliated trade unions, says: "We believe that the vast majority of active Labour and trade unions members think it is more important at this juncture to win a Labour government than to pursue internal battles."

It says that the acceptance of the existing leaders, candidates and selection procedures "is the only workable basis for a ceasefire in the face of the common enemy."

The document recognises that with the election being called in June, "we shall just have to manage as best we can."

However, it still stresses that the need for unity is strong – if Labour wins, unity to keep it in power and to ensure that its policies are carried out, and if it loses, "to resist the temptation to form a coalition government."

Party official blames U.S. over arms race

BY OUR LABOUR CORRESPONDENT

CLEAR responsibility for the intensification of the arms race was for the first time placed on the U.S. by a senior Labour Party figure yesterday.

Mr Jim Mortimer, Labour Party general secretary, said it was the U.S. Congress, led by Mr (now President) Ronald Reagan, which rejected the last U.S.-Soviet arms limitation deal worked out in the Salt 2 talks.

Mr Mortimer said at the annual conference of the National Union of Public Employees (Nupe): "The initiative for this latest round in the arms race comes primarily from the U.S. and we should recognise that."

This explicit blaming of Britain's U.S. allies is likely to be seized by the Conservatives as an indication that support for the unilateralist nuclear policy held by Labour is a pro-Soviet position.

Mr Mortimer listed Labour's main issues for the election: unemployment, the social services, the EEC, the nuclear issue and trade unions.

On Nupe's own principal policy against low pay, he said the measures taken to shore up low pay by the Conservatives gave tens of thousands of Nupe members the reason to ensure that there was a return of a Labour government.

Nupe's conference was the first union electoral platform for Labour since the general election was announced. Delegates gave overwhelming approval to a statement which called on the union's 700,000 members to work for Labour's return. It accused the Conservatives of being unfit to govern.

graph option. As a quid proquo would be increased. "Any talk . . . A fourth option is to design

FT COMMERCIAL LAW REPORTS

Shell not 'proper party' to gas leak action in UK

QATAR GENERAL PETROLEUM CORPORATION v SHELL INTERNATIONALE PETROLEUM MAATSCHAPPIJ NV.

Court of Appeal (Lord Justice Ackner and Lord Justice Dillon): May 5 1983.

WHERE A person has claims against two separate parties, with one of whom he has an arbitration agreement, he cannot join that one as defendant in an action against the other except in respect of issues outside the scope of the arbitration and common to both claims; and accordingly, if no such issues would remain after the arbitration, the party to arbitration is not a "proper party" to the action and leave will not be granted to serve proceedings on him out of the jurisdiction.

The Court of Appeal so held when dismissing an appeal by Qatar General Petroleum Corporation ("QGPC") from Mr Justice Mustill's decision setting aside orders by which QGPC had been given leave to serve a writ out of the jurisdiction on Shell Internationale Petroleum Maatschappij NV.

Order 11 of rule 1 of the Rules of the Supreme Court provides: "(1). . . service of a writ out of the jurisdiction is permissible with the leave of the court . . . (j) if . . . a person out of the jurisdiction is a necessary or proper party [to the action]."

*

LORD JUSTICE ACKNER said that Qatar Petroleum Company Ltd ("QPC") held gas concessions from the state of Qatar.

In February 1972, QPC entered into an agreement with Whessoe Ltd, for the supply and erection of a natural gas plant at Umm Said.

In March 1972 and February 1973 respectively, QPC and Shell entered into two agreements, a "construction service agreement" and an "operating service agreement," under which Shell was to provide planning and supervisory services in connection with the plant.

Both agreements were governed by Netherlands law and provided for arbitration.

The plant was constructed and entered into service. It included a propane storage tank. In April 1976, as a result of a failure in the tank, propane escaped. The expense of repairs and product loss was said to amount to $3,262,140.

Shell investigated the cause of failure and gave certain advice. By the end of 1976 the tank had been repaired and was back in service.

In April 1977 the tank failed again. There was a terrible disaster involving total destruction of the plant and considerable loss of life. The losses were said to amount to $533,244,447.

On February 26 1980, Qatar General Petroleum Corporation ("QGPC"), a public corporation incorporated under the laws of Qatar, issued a writ in the Commercial Court, claiming damages against Whessoe and Shell.

The basis of the claim was *inter alia* that the benefits of the two Shell agreements had been assigned to it by QPC and that the failures of the tank resulted from Shell's breach of those agreements and/or negligence.

The writ also contained an allegation of breach of contract and negligence against Whessoe.

Shell refused to accept service of the writ. The matter was referred to arbitration.

QGPC obtained leave to issue and serve notice of the writ on Shell out of the jurisdiction. Mr Justice Mustill set aside the orders. He decided that the court had jurisdiction under RSC Order 11 rule 1(1)(j) to make the orders, but should not exercise its discretion in that the claims lay within the arbitration agreements.

Later QGPC served a revised statement of its case which substantially recast QGPC's case. It raised claims unconnected with the two Shell agreements and contained allegations based on tort.

In that new scenario, which was not considered by Mr Justice Mustill, the court had to consider whether the case came within Order 11 rule 1(1)(j), and if so, whether to exercise its discretion and allow service out of the jurisdiction.

Whether a person out of the jurisdiction was a "proper party" to an action against a person served within the jurisdiction depended on whether, had they both been within the jurisdiction, they would have been proper parties to the action.

RSC Order 15 rule 4 provided that two or more persons might be joined together in one action where, if separate actions were brought by or against them, some common question of law or fact would arise in all the actions.

The issues of fact between QGPC and Shell, had been committed by agreement to the exclusive jurisdiction of the arbitrators. Excluding such issues from the English proceedings, only potential issues of law were left.

There was no issue of law common to Whessoe and Shell. The case therefore did not fall within the Order.

It was not a proper case for the exercise of the court's discretion.

The parties clearly contemplated finality being achieved by arbitration. The claims were not connected with England. English law was irrelevant. The duplication and division of effort, if Shell were joined as party to the English proceedings, would place a heavy burden on Shell's advisers without any countervailing advantages.

The appeal should be dismissed.

LORD JUSTICE DILLON agreeing, said that QGPC's revised claims were essentially claims founded in tort on the footing that Shell owed a duty of care to QGPC as owners of the plant, before QGPC ever succeeded to QPC's contractual rights under the two agreements. It was claimed also that Shell acted in breach of that duty, before QGPC had succeeded to those rights.

QGPC asserted that the revised claims were independent of the two agreements and outside the arbitration. Shell asserted to the contrary.

The question whether the revised claims were within the scope of the arbitration was a question of law of the Netherlands, since the agreements were exclusively governed by Netherlands law.

There was no evidence of Netherlands law before the court. Accordingly, the only practical way for the English Court to decide the question would be by directing it to be tried as a preliminary issue by a judge at first instance. That, however, could only be done if the court assumed jurisdiction under Order 11.

QGPC had to satisfy the court that Shell was a proper party to the action and that the case was a proper one for the court to its discretion to give leave for service on Shell.

The court's caution in exercising such discretion arose not merely from a belief that a foreigner would be faced with extra trouble and expense if forced to litigate in the UK, but also from the view that the extension of its jurisdiction was *pro tanto* an invasion of the sovereignty of the foreign state where the proposed defendant resided and owed allegiance.

Even if QGPC had claims which were outside the scope of the arbitration, those claims involved to a very large extent the same facts as would be in issue in the pending arbitration.

It was overwhelmingly probable that the arbitration would come on for effective hearing well before the action was ready for trial if Shell was joined in the action against Whessoe in England.

It was probable therefore that the arbitrators would have made their findings of fact as to the causes of the accidents, as to Shell's acts and omissions, and as to damages, before the action came on for trial.

The trial would then not be concerned with issues of fact and law common to QGPC's claims against Shell and Whessoe, but with questions between QGPC and Shell, which were no concern of Whessoe.

The introduction of Shell as defendant would involve undesirable extra complication and delay, and would be outside the spirit of Order 11.

There was nothing in Mr Justice Mustill's judgment to suggest that he would have thought otherwise had the present situation been before him.

The proper place for QGPC to sue Shell was in Holland or, if Shell had a presence there, in Qatar. Shell could only be sued in England if it were appropriate to allow it to be joined in the action against Whessoe.

As a matter of discretion leave would not be given.

For QGPC: Anthony Evans, QC, and Michael Harvey, QC (Herbert Smith & Co). For Shell: Mark Littman, QC, and Marion Smith (Marriott Harrison & Co).

By Rachel Davies
Barrister

THE WEEK IN THE COURTS

Question of double criminality

THERE ARE occasions, fortunately rare, when courts startlingly disabuse a whole generation of lawyers about an aspect of the law they have fondly held to be clear and certain.

One such incidence occurred, almost unnoticed by the media, when Lord Justice Robert Goff and Mr Justice Mann decided last Thursday that the Chief Metropolitan Magistrate had wrongly declined to commit a Danish businessman to prison to await his extradition to Denmark to be tried for criminal breach of trust.* The court said the magistrate should not have analysed the Danish crime the man was charged with and then gone on to see whether the evidence disclosed a substantially similar English offence. The magistrate should have considered only whether the conduct complained of came within the Extradition Act and the Anglo-Danish extradition treaty.

It is a traditional and universally-accepted principle of extradition that fugitives from justice should be surrendered for trial only for those acts which are not only offences against the law of the requesting country but which, if committed within the jurisdiction of the requested country where the fugitive is found, would also constitute offences against its own law. This is known as the double criminality rule.

Its justification is the principle that the fugitive should be treated in the same way as any other person within the jurisdiction of the requested country, and should not be detained or proceeded against there for acts which do not contravene its law. The replication of the law of the requested country by that of the requesting country is founded on the concept of extradition as a form of mutual assistance in bringing offenders to justice in the criminal courts.

However, there has always been a problem in determining whether the fugitive's acts, in order to be extraditable, must be punishable in the requested country under the same name as it is punishable by the laws of the requesting country or whether it is sufficient that the facts adduced in support of the claim for extradition, while not constituting the named crime by the law of the requesting country, constitutes a crime by another name under the law of the requested country.

Some courts and lawyers have, in the past, propagated the view that the acts constituting a named crime under its definition in the requesting country must constitute the named crime under the definition in the requested country. If that statement were generally true, extradition would be labouring under an appalling handicap. Many acts constitute offences under the law of both countries, but would be differently designated.

What constitutes, for example, obtaining property by deception in one country might be the abuse of confidence in another. Again, the same act might be theft in one country and embezzlement in another. If the offence disclosed does not have to be identical either in its description or in its constituent elements, in the two countries, the courts have at least so far held that the corresponding offences should be substantially similar.

An example of how this works in practice was provided in a case three years ago.** Members of the Church of Scientology entered various Government offices (in particular, the Internal Revenue Service) in Washington DC and photocopied there confidential material relating to the Church and its adherents.

Entry had been gained by the ruse of obtaining official passes required for entry in Government buildings. The entrants had acted upon the direct instructions of two senior officials of the Church who worked at the international headquarters at East Grinstead. These two were the subject of a requisition for their surrender to the U.S. on charges of burglary.

The material placed before the English courts did not allege entry by the burglars as trespassers. By English law an essential element in the crime of burglary is that the defendant entered as a trespasser. The High Court, in rejecting the plea that the burglary offences were dissimilar, held that an accused person always had the protection that he could only be extradited for a crime that is substantially similar in concept in both countries. The absence of the requirement of trespass in American law was insufficient to take the case out of the category of e substantially similar offence. Both offences were burglary.

The recent decision throws overboard the substantially similar test. The reasoning is that the only question for the courts is whether the *acts* constituting the offence charged would, if committed in the requested country, constitute *an* offence (not necessarily the offence charged) by the law of that country and made extraditable in the treaty between the two countries.

Hence if a country requests the return of a fugitive on a crime of murder and then produces evidence to the courts of the requested country that establishes a prima facie case of theft, the courts of the requested country will be bound to order extradition because both murder and theft are extraditable.

The protection against that happening is said to lie with the Home Secretary who has a discretion not to surrender a fugitive even though the courts have held that he is extraditable. This can hardly be satisfactory, since tha Home Secretary's discretion is exercised sparingly in favour of non-surrender, and then only for some political reason relevant to the particular requesting country. It has always been intended that the courts should be the primary arbiters of who is surrendered to a foreign country in accordance with the particular treaty between the two countries.

It had become increasingly apparent in recent years that the law of extradition has become inadequate in many respects. That is hardly surprising, since it is based on a statute of 1870, subject to occasional updating by the adding of modern extraditable crimes connected with drug smuggling and terrorism. While the basic thinking behind the various extradition treaties has changed little, the times in which those treaties are now expected to operate are radically different.

An interdepartmental working party issued a report last July on the law and practice of extradition in the UK. One thing stands out in the report which involves 82 conclusions and recommendations. The working party was not dissatisfied with the law as it then stood on the doctrine of double criminality.

Last week's High Court ruling thus introduces such a distortion of the law of extradition as to call for review by the House of Lords in its judicial capacity. As the ruling stands, an urgent examination within the Home Office is needed, aimed at updating the law that seeks to assist the international community in dealing with serious crime that knows no national boundaries, and indeed with criminals who exploit those state boundaries to their own nefarious ends.

**R v. Chief Metropolitan Magistrate, ex parte the Government of Denmark, Financial Times, May 13, 1983, p.7.*

***R v. Governor of Pentonville Prison, ex parte Budlong (1980) 1 WLR 1110.*

Justinian

Camoys queries figures for TV-am audiences

BY ALAN FRIEDMAN, BANKING CORRESPONDENT

TV-AM'S audience is well above the current estimate of 200,000 viewers and possibly double or treble this figure, Lord Camoys, managing director of Barclays Merchant Bank, has claimed. The bank, with £1.2m of equity and subordinated loan capital in the venture, has an investment stake of just under 10 per cent.

Lord Camoys, discussing the TV-am venture in detail for the first time on Friday, claimed that the way the audience was measured was inaccurate. "In the morning, you switch it on and off quite a lot — like tha wireless. They say the figure is 200,000. I think it is well above that", he said.

He admitted that he regarded the TV-am investment as a "high risk" and claimed the main problem involved programming.

"It was quite obvious we got the programming wrong. It has been proved that there is a market for morning TV. The question is how can we get the audience," he explained.

The goal now was to improve the programming and return to TV-am's initial target by March 1984.

Lord Camoys said TV-am could be, "worked to success" by changing the programming.

In addition to its £1.2m equity stake, Barclays Merchant Bank is believed to have extended about £1m more in bank loans.

CONTRACTS AND TENDERS

TRAVEL

PUBLIC NOTICES

GREATER LONDON BILLS
£35 million Bills issued 12.5.83 maturing 11.8.83 at 9.6063%. Total applications £148 million. Bills outstanding £60 million.

ART GALLERIES

TECHNOLOGY

EDITED BY ALAN CANE

VERSATILITY KEYNOTE IN GROWING MARKET

Process control boom near

BY ELAINE WILLIAMS

AS THE process industries look for more specialist products to manufacture, Fisher Controls, part of the Monsanto group, believes that a large market is opening up in batch systems for process control.

It is aiming to win a large part of that market which is growing at a rate of about 10 per cent a year.

"*Chemical producers* are turning away from single product, continuous processes," says Gerald Parry-Jones at Fisher Controls. "Specialty products are becoming the life blood of the processing world," he believes.

Products such as additives, dyes, phosphors for television sets, and liquid crystals for electronic displays add high value compared with the very low profit margins on continuous bulk materials production.

So, Fisher sees a large market potential in the batch control sector of the processing industry. Already process control accounts for a third of Fisher's business. Its other main activities of equal size are in power station control and monitoring systems.

Mr Parry-Jones believes that batch processing will become the major growth area for process control manufacturers as more chemical and other processors move towards lower quantity, high valua production.

Particularly important will be the ability for processors to make several products and versions of the same product on a batch basis using the same basic process plant. This means that the emphasis will be on very versatile process plant and control equipment to allow complex mixes of product.

To meet this market Fisher has developed a batch process version of the Provox process control system it introduced three years ago. The development of the software system alone took 100 man years. Although much of the hardware design went on in the U.S., the long experience of Fisher's software team at Leicester provided an important input to the system.

Provox has been designed so that process engineers can programme the system using a computer language designed to be similar to their own technical jargon. Process engineers can even design their own mimic diagrams in full colour with ease on the system.

As well as software, the company also has experience in communications which is a vital part of process control. It allows sensors and intelligent data gathering instruments to communicate over large distances from the site of production to the main control centre.

The smallest version of its batch control system costs about U.S.$99,000 and Fisher already has several orders on hand. Tha system consists of a main processing until, with a back up system ready if there is any failure to take over.

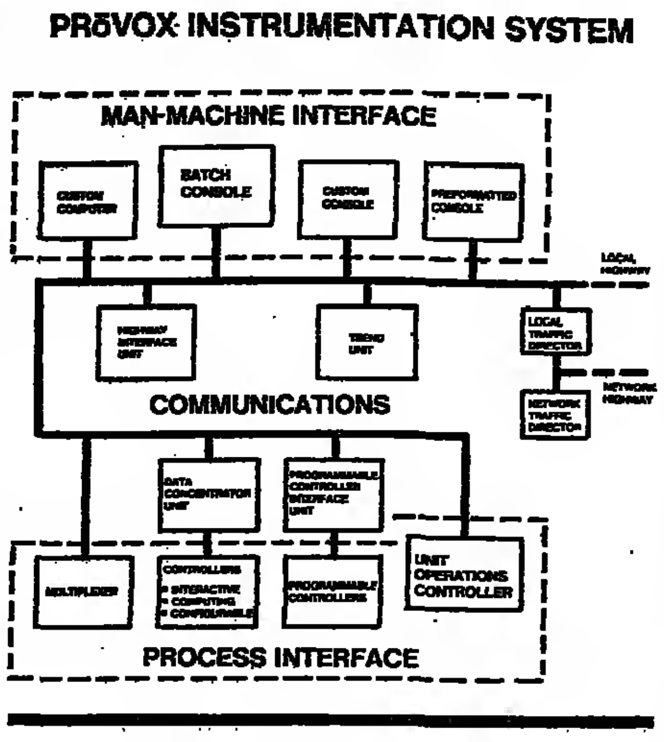
It is linked to large colour visual display units from which customers are able to monitor and control every aspect of production. Also a wide variety of management information can be obtained from the system.

Mr Parry-Jones explained that Fisher had attempted to simplify the procedure of setting up a computer based process control system. This had been achieved by splitting the software needed to control processes into various components which are fundamental to all manufacturing processes.

For example, this could be filling tanks with raw materials, heating cycles, cooling cycles, reacting chemical together and transferring products from reaction vessels to storage tanks.

According to Fisher this allows manufacturers to delay as long as possible the final decision on software design. When a single plant may be producing a number of different products simultaneously this way of design enables process engineers to set up the complex steps involved in mixed batch production.

Fisher Controls, which is part of the Monsanto group, has gone through major changes in the past few years. Four years ago, it was integrated with GEC's former process control company which complemented Fisher's existing expertise. Earlier this month Monsanto agreed to buy GEC's 33 per cent stake in Fisher Controls International.



AID FOR USERS OF 'SPREADSHEET PACKAGES'

The latest offering in screen calculators

GOOD NEWS for writers of "spreadsheet" packages, the computer equivalent of the accountant's rows and columns *of financial* predictions and realities.

"I thought Visicalc had cornered the market but it is still absolutely enormous," says Ms Helen Smith of Lifeboat Associates, a six-year-old New York based company which was one of the first publishers *and distributors* of small machine software.

Its latest offering in tha spreadsheet stakes (or screen calculators as Lifeboat calls them) is T/Maker III which computes, calculates and produces financial documents.

Where T/Maker III improves on previous versions is its ability to handle graphical representations of data in a table into car charts which can be printed or just displayed on the screen," Lifeboat says.

It also combines spreadshet capabilities with word processing *on the grounds* that most financial reports involve both text and figures. More from Lifeboat in the UK on 01-836 9028; the package is £155 including the manual.

AWAKENING THE 'SLEEPING GIANT' OF COMPUTING

Slow growth in use of information utilities

BY LOUISE KEHOE IN CALIFORNIA

"INFORMATION UTILITIES" used to be about as dull as the name would suggest in the view of most consumers. These data bases offer a mix of news culled from business publications, consumer information and entertainment.

While the use of such services is growing, the information utilities ara still reaching only a small fraction of their potential audience. While other uses of personal computors have gained mass market status, "hooking up" personal computers to communications lines has remained largely tho preserve of the computer "buffs."

The biggest information utilities—Dow Jones news retrieval, the Source and Compuserve, have between them a totsl of close to 100,000 consumer (does not include business subscribers) subscribers—double the number of 12 months sgo, according to Data Resources Inc. Tha major limiting factor in the growth of information utilities is that many of them have grown out of business data base services and havo been only slightly revamped to suit the consumer/small business markets.

Finding what you are after on an information system—be it a game or a stock unit—can be a tedious and expensive process. At $25 to $60 per hour the information utilities are not used for fun. Several of the services do, however, offer "after hours" cut rates that allow tha consumer to take advantage of their services.

Some new developments in information utilities may, however, change the picture and awaken the "sleeping giant" of personal computing. Currently, less than 10 per cent of personal computer owners havo a "modem"—the piece of equipment needed to connect a computer to a telephone line—according to U.S. market resarchers. The rest are missing out on an increasingly wide range of services that csn open up data bases, electronic mail services and software-by wire facilities.

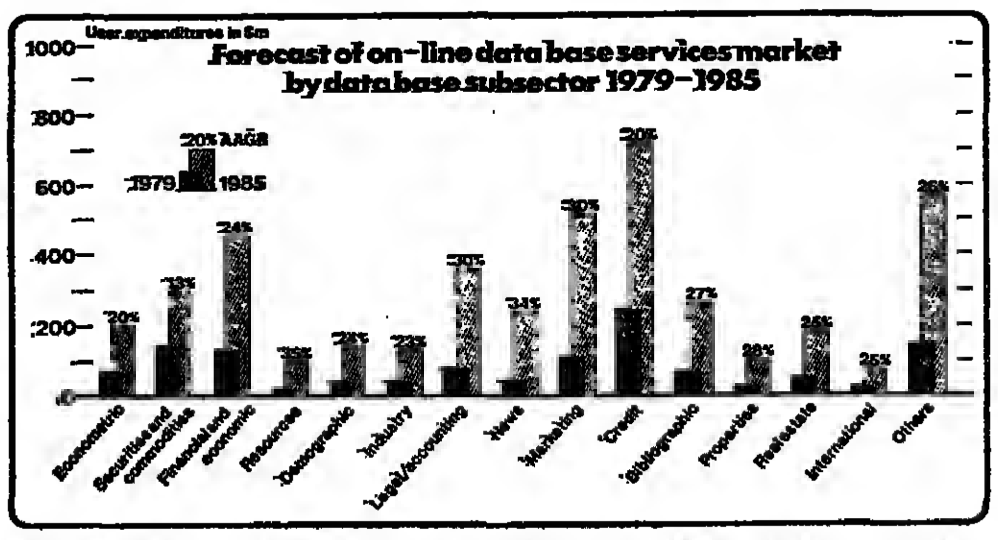
Electronic delivery of software—a kind of electronic mail order system—is one of tho aspects of information utilities that is beginning to sttract more customers. Bargain hunters like the low prices (sometimes half of the regular retail price of programs obtained via the information systems.

In the U.K., Prestel recently introduced an electronic software delivery service for videogames and home computer programs that sell for a fraction of their retail prices.

New versions of software-by-wire are also emerging in the U.S. Cable television connections are used to distribute videogames by playcable to several major cities around the U.S. The joint venture between Mattel and General Instruments offers owners of Mattel's intellivision video game machine up to 20 games per month for less than $10.

Another new wrinkle that is attracting more users to the electronic utilities is the combination of information services and personal computer programs that give the user the ability to access data, combine it with his own figure and perform an analysis of the information.

An example is Visicorp's visitink program which electronically transfers selected business information over the telephone from Data Resources Inc, in the form of visicalc worksheets. Data obtained from DRI can be combined with private/business data and manipulated according to the assumptions and needs of the individual personal computer user.



How the market for information held on computer data bases is expected to develop through to 1985. Computer software delivered over the telephone lines is the latest addition to the picture.

Software

Process control

AN ORDER processing and stork rontrol system designed to run on the top-of-the-line VAX minicomputers from Digital Equipment (DEC) has been launched by Software Sciences.

A leading software and systrms company and part of the Thorn EMI group, Software Sciences has created the package for general purpose application in the distribution industry.

Called OPRA, it is said to be suitable for multicompany, multi warehouse and single location distribution.

It is designed for customisation through a large number of options. David Packwood of Software Sciences says: "OPRA assumes from the start that every implementation will be tailored precisely to an individual site. It is an extremely thorough distribution package." More on 0252 544321.

Microcomputers

Machine to span the gap

BUSINESS Computer Systems based in Borehamwood, Herts, is distributor for the Xerox 820-II/M microcomputer. The company says that this machine is a multi-user, multi-tasking machine that spans the gap between personal and business users.

Based on the Z80A microprocessor, the basic machine comprises a 64K central processor with an integral 1920 character display and detachable full alphanumeric keyboard. It has double-sided, double-density floppy disc drives with a storaga capacity of 2 Mbytes. It is possible for larger capacity storage with 10 Mbyte Winchester drives. More information on 01-207 3344.

BUILDING AND CIVIL ENGINEERING

Civil engineering static

THE BELEAGURED UK construction industry has seen little change since the beginning of the year according to the latest workload survey from the Federation of Civil Engineering Contractors.

"Some indications of better prospects ahead" were recorded in the January 1983 workload survey. The latest survey, in April, while still showing such signs, clearly indicates that the situation varies considerably from company to company.

The FCEC said that overall there had been a small increase in orders since the last survey, compared with both six and 12 months ago.

Of the 211 companies which replied in the survey, 35 per cent said order books were better than 12 months ago, 26 per cent said they were the same and 39 per cent said they were worse.

The FCEC said: "Although the results show that relatively more medium to large (500-1,000 operatives) and large firms are without civil engineering work, those with work report healthier order books with corresponding slight improvements in both value and volume terms. However, the general level continues to remain extremely low."

Invitations to tender have, however, fallen recently with tender lists still lengthy and the value of contracts generally decreasing.

There has been little overall change in employment compared with the last survey with the most significant feature being the increased number of medium-to-large and large companies employing more operatives than a year ago.

All categories of companies have increased their holdings of plant compared with 12 months ago, according to the FCEC which said: "the overall trend therefore reverses the recent run-down in plant holdings.

"The level of plant utilisation has also increased slightly but remains disappointingly low."

The Federation said estimated trends for new orders, repair and maintenance and employment were marginally more optimistic "reflecting a reaction to very low levels of activity rather than confident predictions of growth in the industry."

Mr Sandy Shand, president of the Federation, speaking at the FCEC annual dinner earlier this week, cast doubts on the viability of Labour's plans to revitalise the ailing construction industry by offering huge new programmes of work.

While the "sadly under-employed" construction industry did not want to look "too closely into the mouths of gift horses" Mr Shand nevertheless wondered whether Labour's ideas would prove over-ambitious if the party won the general election and tried to put them into effect.

"When you look at what the Labour Party is promising to spend, not just on new construction programmes as well, it really is difficult to see anything other than bottlenecks and price increases in the short term, followed in a few years by inevitable cutbacks . . . and we all know where the principal cuts would fall," he said.

Earlier in his speech Mr Shand referred to two problems looming on the horizon for his industry. First, the move towards setting up quality assurance systems and Common Market rules for "noise control" at places of work.

The proposed quality system, Mr Shand warned, could simply lead to more bureaucracy "with inspections on site, delays while decisions are being made and all the accompanying paraphernalia."

Contending that they were unnecessary, he said: "In free market conditions if you don't perform satisfactorily, you don't get the next job. That is a salutary incentive but without a bureaucratic set-up."

The FCEC, he said, was asking the Government to take a firm stand against the proposed EEC Noise Legislation and to support higher thresholds, which while costly to attain, were at least workable in the industry.

LISA WOOD

Portakabin goes up market

PORTAKABIN, which started life 22 years ago to provide temporary, on-site accommodation, has finally completed the transformation into a company capable of taking on the market normally serviced by traditional building methods.

Recent winner of orders worth over £2m each for the supply of buildings to the Falklands and Ascension Islands, the company has now launched its Pullman range, offering new standards for accommodation and for the working environment.

The Pullman range offers a selection of eight, self-contained buildings, ranging in length from 16 ft to 60 ft, the largest with the floor area of a small family house and yet still capable of being delivered by truck and being off-loaded by one man.

The Pullmans are steel-framed, designed to comply fully with UK building regulations, selling on speed of completion and flexibility of use rather than, necessarily, as a cheap alternative to traditional buildings.

From its headquarters in Huntingdon, near York, and from subsidiaries in France, Germany and Holland, Portakabin services an export market which takes about 50 per cent of its total production.

In the UK, sales outside the construction business now represent about four-fifths of its sales, says marketing controller Jeremy Cockayne. Of that, perhaps a quarter are centred on central and local government and health authorities, and about 70 to 80 per cent are destined for office use.

Portakabin has an exhaustive list of blue-chip, UK and international customers—ICI, the Prudential and Renault among them—and a history of moving steadily up the market, and into wider applications of factory building technology.

The Pullman represents a bridge between the Portakabin self-contained units and Yorkon, a high quality steel-framed module building system which has been going for two years, and has been used in 70 projects in that time.

Architect Reginald Stallard, head of design at Portakabin, uses three Yorkon projects to illustrate how the company sells its skills.

At Hinckley Point nuclear power station, he says the CEGB wanted a 17,000 sq ft extension to its office accommodation, the original being a prestige building by Sir Francis Gibberd and Partners. "Here," he says, "speed of completion was a crucial factor in choosing the building system."

Meanwhile, at Hatfield, British Aerospace needed a two-storey building incorporating a computer suite, reception and offices on the ground floor and offices upstairs with visual display units plugged into the downstairs computer. That involved demolishing the existing building which housed the computers and occupied half of the site.

"We were able to put up half of the building on two floors so that they could move the computers in and keep them operational, while we demolished the original building where the second half of the new building is going to stand," says Stallard.

At Leeds General Infirmary, where new operating theatres were needed in a very restricted courtyard, "it would have taken months in the traditional way," says Cockayne. "Portakabin performed one of its more spectacular stunts.

"We took a gigantic crane and slung them in over the top of the existing buildings," says Stallard. "We had a completely dry area in less than a week." The theatres, modified Yorkon with extra high ceilings are being fitted out in situ and needed to be dry before the fitting out could take place.

But Portakabin has no brash ideas about actually replacing traditional construction. It is, in fact, part of the Shepherd Group of privately-owned construction companies based in northern England.

"We have just under a 1,000 employees and a turnover of around £20m," says Cockayne. "That is a tiny proportion of the total market."

WILLIAM COCHRANE

Double-glazing key criteria

THE GLASS and Glazing Federation is having talks with the Greater London Council over a dramatic television commercial which warns against fixed double-glazing in windows.

Mr Bryan Hern, director of the Federation said that part of the commercial, which shows a woman hitting a double-glazed window with a chair to no avail, was misleading.

He said that 99 per cent of glass used in double-glazing, averaging three to four millimetres, would not be difficult to break as it was ordinary, or "annealed" glass.

Firemen had stated a preference for sliding or open panels in double-glazed windows, but Mr Hern said that many customers preferred fixed glazing because of safety concerns. He said that between 1973 and 1976, 72 children under the age of 14 had died by falling out of windows.

Consumers had a choice, and most double-glazing companies offered a wide range of products. Some did install shatter-proof glass in double-glazing because of security concern.

The industry stresses that as long as a window opens easily it does not matter whether the glass is strengthened or not. The key criteria for good double-glazing were:

- The product should open easily.
- It must be totally draught-proof.
- It must incorporate locks to prevent burglars.
- It must be good looking.
- It must be fitted by an expert.

Sir George Young, Under Secretary of State for the Environment, told MPs earlier this month that the Home Office was considering changes in regulations aimed at ensuring that the installation of double-glazing did not prevent the opening of at least one window in each room as a means of escape in case of fire.

This is in the wake of seven recent deaths in rooms fitted with fixed double-glazing.

L.W.

Precast concrete frames could save millions

SAVINGS OF more than £70m (out of a total of £1,520m spent on office construction in 1981) could have been achieved by greater use of precast concrete frames, according to a survey undertaken by Trent Concrete Structures on the cost and time advantages of using such frames.

This saving emerged during a compilation of costings following the publication last September of the Constrado report comparing the cost of building with steel frames and in situ concrete frames.

Although Trent agreed broadly with the report's conclusions that construction times were a significant factor in overall building cost, it decided to make its own case for using precast concrete frame as an alternative to steel or in situ concrete.

Precast concrete frames, which were not considered in Constrado's report, take a 10 per cent share of the available frame market with a high degree of repeat business from contractors operating in both design and build and management fields.

Trent took the examples given in the Constrado report and costed them on normal standards of quality, manufacture and profitability. The results showed in situ concrete frame construction to be slower than steel or precast concrete and the cost of pre-cast concrete frame construction to the contractor to be generally cheaper than either steel or in situ concrete. More from Trent on 0602-241331.

CONTRACTS

Trafalgar House wins £230m

UK and overseas contracts worth £230m have been won by TRAFALGAR HOUSE civil engineering and building companies—ranging in scale and value from specialised consultancy appointments to multi-million pound turnkey packages.

As envisaged when Cementation International signed its £215m turnkey design and construct contract for the Sultan Qaboos University, negotiations have been concluded for the incorporation within the scheme of a 500-bed teaching hospital to be associated with the faculty of medicine. It will be fully equipped and ready to receive medical students from the university, scheduled for completion September 1986, for the start of the academic year 1988-89.

In India three contracts have been secured, by 51 per cent owned publicly quoted company Cemindia, at Vizag, Paradip and Madras, for piling, diaphram walling and vibroflotation work, totalling some £16m.

Cementation International will shortly begin work on the £21m Makurdi market contract, Nigeria, comprising covered market, administration buildings and car park.

Work has just begun, near Heathrow, on the £44m M25/M4 London orbital road link. The project incorporates a four-level free flow interchange which will be a feat of civil engineering for Cementation Construction and joint venture partner Costain.

Among the other new multi-discipline contracts awarded to Cementation Construction—a £4.8m Croydon waste transfer station for the GLC, £2.3m Cartgate to Yeovil road for Somerset County Council, £2.5m worth of pipeline contracts for the British Gas Corporation, a £3.2m bulk fuel installation at Mildenhall for the PSA and smaller contracts for light industrial buildings, sea defences, jetties, underground station repairs, airport taxiways, canal works, multi-storey car park and country park lake.

A £7.5m research building is the latest in a series of design and construct contracts won by Cementation Projects for pharmaceutical manufacturer Pfizer, in Kent. Trollope and Colls is busy in London, where current contracts include the new Standard Chartered bank in Bishopsgate, a headquarters building for Mobil and a reconstruction project for the Royal London Mutual Insurance Society. The company has started work on a £20m office development in Woking for Westbourne Terrace Investment Company. Trollope and Colls (City) has a record order book and among contracts recently obtained is a £10m refurbishment of Export House for Land Securities.

Willett operates on a national basis and is involved in office developments worth a total of £17m at Basingstoke and Bracknell as well as in other sizeable contracts in the Midlands and West, while Trollope and Colls management is building an awards list which includes a new £25m headquarters for Williams and Glyn's Bank.

£4m Chinese embassy for Wates

The new embassy building for The People's Republic of China at 49-51 Portland Place, W1, is to be built by WATES CONSTRUCTION under a £4.1m contract. It will be an eight-storey building with a mezzanine floor and a basement and sub-basement. WATES SPECIAL WORKS has secured contracts worth £7m in the London area. Work includes a £1.5m contract for the Halifax Building Society, for the conversion of an eight-storey office block in the Strand, and, for the London Borough of Hackney, a £1.5m contract for the modernisation of 70 flats at Sylvester House, E8. Legal and General Assurance Co has placed the fitting out of Clifton House, Ealing, at around £420,000, whilst under a fixed fee prime cost contract, Sun Printers, part of BPCC, is to convert the paper stores at its Watford plant.

NOW THERE'S EVEN MORE GOING FOR CARGO 16 TONNERS.

There's always been a lot going for the versatile Cargo 16 tonners.

There's a wide range of engines from 130-204 bhp, all offering excellent fuel economy and outstanding reliability. And when it comes to driveline combinations, nobody gives you more choice to best suit your needs– for example at 16 tonnes we offer the choice of 7 gearboxes, 8 single speed and 3 two speed axle ratios.

Then there's a range of strong chassis which give excellent payloads at 16 tonnes GVM. This all adds up to substantial savings on total cost of ownership, compared with our key competitors.

MORE FEATURES AS STANDARD

1983 Product features on 1615/17/20 models now include:

- 8 speed gearbox and heavy duty axle (on 1615/17 models)
- Power-assisted clutch (on 1617 models)
- Power-assisted steering
- Laminated windshield
- Steering column lock
- Thermoviscous fan
- Reversing lamp
- Multi-purpose socket/cigar lighter

Effective savings up to £1300

Effective savings referred to are a comparison of today's maximum retail price of the latest specification Cargo model, compared with the maximum retail list price of a similarly equipped model in September 1982. The model identification numbers denote nominal GVM and nominal BHP e.g. 1615 – 16.25 tonnes GVM, 153 BHP engine.

TRUCK EXTRA COVER
The Optional Warranty Plan from Ford

Now Cargo 16 tonners have even more going for them, with higher standard specifications on all models. What's more, Truck Extra Cover, a second year optional warranty for major driveline and steering components, is now available for all Cargos.

Talk to your local Ford Truck Specialist Dealer about the loan of a demonstrator vehicle – you'll find out just how much there is going for Cargo. And he'll tell you about the great deals he can offer.

Ford gives you more. Ford

FORD CARGO
6-32.5 TONNES

BRITAIN'S BEST SELLING TRUCK.

For more information on the Cargo please write to Dept. FTS1, Ford Motor Company Limited, Information Service, Freepost, Cirencester, Glos. GL7 9BR.

THE MANAGEMENT PAGE

Letting the picture tell the story

Arnold Kransdorff on how video can relay the corporate message

USING audio-visual techniques to communicate with employees is not a new phenomenon in British industry. Slides and films have been used for many years, albeit by only a small number of companies.

More recently, however, the advent of video has opened up new horizons, not least because of its cost advantages and the new vogue for increased employee involvement.

There is little published evidence on the extent of audio-visual use in British industry but a private survey by a top public relations consultant of 145 delegates to the annual conference of the Institute of Personnel Management in 1980 showed that a mere 20 per cent of companies used video for employee communications.

A further 7 per cent said they would certainly be using the technique in the near future. Only 22 per cent said they were using other audio-visual methods such as tape-slide, film or film-strip.

Because of the heavy investment involved, relatively few companies can afford to have their own in-house facilities to make audio-visual programmes. Among them are ICI and Barclays Bank.

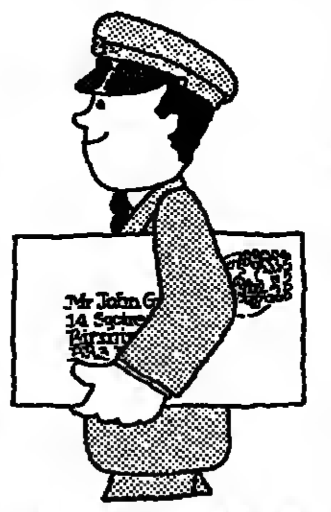
But elsewhere, independent production companies are flourishing. Some have been fronted by popular TV and radio entertainers and presenters such as the comedians John Cleese and Michael Barratt (formerly of BBC's Nationwide programme) and Brian Redhead of Radio Four's Today programme.

Most of the programmes fall into the "training" category but an increasing number are dealing with promotional material and corporate information such as profit-sharing schemes and annual reports that management want to pass on to employees.

Companies which have used audio visual techniques include a wide cross-section of major groups, as the client lists of World Wide Pictures and another large independent producer, London-based Wadlow Grosvenor Productions, shows. WGP currently has more than 100 films in various stages of completion.

Among the films they have made are, for example, a training film for Woolworth to help prevent shop lifting. Elsewhere, Wimpy used film to launch an internal campaign to help its own franchisees get a bigger share of the fast-food market.

Companies like W. H. Smith,



A character from the Post Office campaign to encourage employees' awareness of franchised mail.

the newsagent, and County Bank have used the medium for staff induction training while National Westminster Bank has produced a film to explain its small business start-up service.

Whitbread, Blue Circle, Marks and Spencer, Associated Biscuits, British Sugar Corporation and Calor Group have all used film as a medium to communicate their annual results to employees.

On more specific subjects, Rank Xerox made e film explaining the company's private health scheme while Alexander Howden Group used the techniqne to demonstrate the advanlages of its proposed merger with Alexander and Alexander of the U.S., and the National Freight Company used it to explain its own management huy-out.

In all these cases, the film was directly commissioo\i hy individual companies for showing to employees or potential customers. There are other production companies which take another approach to the audio-visual market.

Video Arts, John Cleese's company, for example, makes films which it sells to companies mainly as a training aid.

A popular film it has made is one on statutory sick pay, an explanation of the intricacies of the latest legislation on the subject.

Shop floor audience

CHRIS HOPE sells films. Not the big screen variety that comes out of the major studios but *10-to-20* minute versions that are finding a growing audience on the sbop floors of British industry.

A former line manager with Richard Costain, the building contractor, his conversation turns easily on subjects like management strategy and sbop floor problems.

What he has done is turn his industrial skills to a celluloid format. As marketing director of World Wlde Pictures, one of the largest industrial film makers in the UK, be spends his time trying to persuade companies to use audio-visual techniques to communicate their often indecipherable management jargon to their workers.

This might be a film of the kind made for the Post Office, e training film, an explanation of e company's new pension scheme or e simplified audio-visual version of the annual results.

In e typical year, World Wide produces about 80 films. Over the past 40 years it bas picked up more than 200 creative ewards all over Europe and the U.S.

When he is making films, Hope employs ona basic principle; always keep the audience in mind. In his case, the audlence is generally a shop floor worker.

In the British context, this usually means an individual "who is generally relatively unsophisticated in the understanding of management jargon, who must never be taken for granted and wbo must never be spoken down to," says Hope.

"Successful programming involves balancing the expectations, requirements and perceptions of the audience with the intuitive skills and experience of the film-maker."

When Hope is called in to make a film one of the first decisions he makes is its length. This depends largely on the nature of the employee's work, says Hope, although it is never finite.

"If the andience is working on a conveyor-belt—such as those used in car manufacturing—the film would normally have to be much shorter than one made for workers assembling, say, electronic equipment on a non-production line. The reason is very simple; when you're showing the film you can't hold up a conveyor belt for very long without affecting the output of tha final product.

"For workers on a non-production line process, a film can contain more information and you can take more time pacing a message."

Once the optimum length is decided on, Hope then turns to content. This is usually a collaborative effort by himself, one of his producers (the person responsible for selecting, managing and motivating the creative people involved in the film), a freelance writer/director and the company.

"It is important for everyone to get involved, and agree, the major focus. Then we get on and make it. It usually takes between there to four weeks to produce a film."

A typical structure for a film on a company's annual results would contain five elements, says Hope.

"There would be an opening sequence to set the scene, possibly inclnding some reference to previons programmes in order to establish continuity.

"This would be followed by a section which could be called 'Where Are We'—an account of profits, or losses. After this would come 'What Does It Mean?' a valne judgment on the performance, and 'Where Are We Going?' a section which would deal with the tasks facing tbe business.

"It is this part of the film that is the most important. This is wbere you are hopefully focussing tha message. The aim is to involve the audience so, come discussion time at the end of the film, they can be stimnlated to improve performance."

The final part of the film would feature "The Boss," where the chairman or chief executive would be interviewed. "The aim here is to put tha top man up front answering the kinds of qnestions that the audience—the workforce—would like to ask."

Because the company is always the final arbiter of content, Hope concedes that it is impossible to achieve the same measure of credibility that would arise from an outside press interview. Nevertheless, be believes it is possible to go some way towards this by choosing professional presenters and narrators whose reputations have been built on "objectivity and independence."

He also believes that the films be produces should not replace communication between line managers and their staff—but complement it.

"Communications need also to be two-way, and audiences like to respond face-to-face with e management spokesman after each programme."

John Cleese: playing St Peter in a film in which he puts a disorganised manager back on an organised path.

Attitudes on franking

LOOKING SOMEWHAT displeased, a manager from Barclays Bank appears on the screen to complain that many of his clients did not get their dividend payments and pension cheques on time; equally disgruntled is a man from the Royal Socie ty of Arts, who complains that his examination papers were not arriving at colleges fast enough.

These two incidents appear as clips on an unusual video film designed to change attitudes of Post Office employees towards franked mail, the postal system used by most businesses. In 1979 a lot of business mail was not getting through as it should—and the Post Office was coming under pressure to improve the quality of its service.

Tha problem, the Post Office discovered, was that many of its key staff—from postmen to sorters — unconsciously considered stamped mail to be the more important than franked. As a result, the latter, which accounted for about a third of total letter mail—bringing in revenue of around £2m e day—was given lower priority.

Only 74 per cent of first-class franked mail, for example, was being delivered by the following day, compared with 82 per cent of stamped post. And out of every five letters delayed in tha Post Office system, four were franked.

Today, the picture is mucb improved, thanks largely to the Post Office's internal communications campaign to change employee attitudes. It believes that a concerted campaign involving posters, news sheets, in-bouse newspapers and a sophisticated video presentation has helped it largely to overcome the negative ettitude towards franked mail, although it concedes that there is still some way to go.

Within the context of an improvement in the postal service overall, the so-called meter gap—the different between the quality of service given to franked and stamped mail—has been cut from 8 per cent in 1979-80 to 4 per cent in 1982-83.

Back in 1979, the problem looked insurmountable. So how did a nationalised industry, not known for its progressive management attitudes, itself change the attitudes of its workforce towards a crucial element of its business?

In the event the Post Office decided to look outside for help. It brought in communications specialists Charles Barker Lyons who in turn commissioned World Wide Pictures, an industrial film maker, to produce a video presentation.

Between them and the Post Office's own public relations department, they produced a communications package which, by standards evident elsewhere in industry, has broken new ground in the field of industrial propaganda.

To communicate information to employees, most companies choose the technique of elmplifying the message as much as possible and then visually dressing it up to make it eye-catching and interesting. This is often seen in presentations of annual reports and in the training field.

In the Post Office, the campaign was designed to be "instructively suggestive," says Peter Milne, director of mails operations. Spearheaded by the video (cost £12,200), it incorporated a visual package of ideas to improve working practices throughout the national network of 800 sorting offices.

An important element of the campaign was to show that all the ideas most were the brain-children of on-site management or the shop floor rether than head office.

What the Post Office wanted to do was pass these ideas on in the hope that individual sorting offices would either take them up or come up with suggestions of their own. In the event employees .. "became very receptive to change, particularly to the ideas mentioned on the film," says Milne.

With the video, the technique used was to feature key operations people in the Post Office to drive home the message that franked mail was an important element of the business but that the quality of service had fallen far below both the minimum acceptable level and the level accorded to stamped mail.

In every case local Post Office personnel were used to illustrate their ideas—and all were endorsed by more senior officials.

The video ends with the industrial equivalent of a statesman's call to arms. Mike Berry, a former divisional bead and now Postmaster Controller at Mount Pleasant, one of the main national sorting offices, is interviewed saying: "We bave shown, and we have enough evidence to suggest, that if an office wants to solve the problems and gets down to it and in fact finds its own solntions, then those solutions are highly successful.

He then suggests that the answers would come from people getting together from all levels, from discussion and from an analysis of their problems.

After its showing, time was allotted for discussion and in almost every case the ideas mentioned were taken up in one form or another.

THE ARTS

Architecture

Colin Amery

A bright new satellite connection for Gatwick

We have our exits and our entrances and in architectural terms they are often the most important impressions we have as we arrive in, or leave, a country. The airport has offered major opportunities for the promotion of modern design. Most visitors to London arrive at either Gatwick or Heathrow and it is there that they first of all come face to face with modern British architecture.

In the 1950s there was still an air of excitement about the birth of an airport. Keen readers of the Eagle actually spent days on the roof of the new Queen's building at Heathrow to watch the 'planes and soak up some of the breathless excitement of the dawning jet age. This thrill of speed and the sense that we were somehow all flying into a brave new world certainly influenced the design of the buildings.

No architect in England has been as bold as the well-named Eero Saarinen who designed the glorious bird-shaped terminal for an American airline at Kennedy, New York. He captured the spirit of flight in concrete. Somehow, Frederick Gibberd's rather pedestrian brick and glass early structures at Heathrow never captured the sense of a new building technology appropriate to the air age.

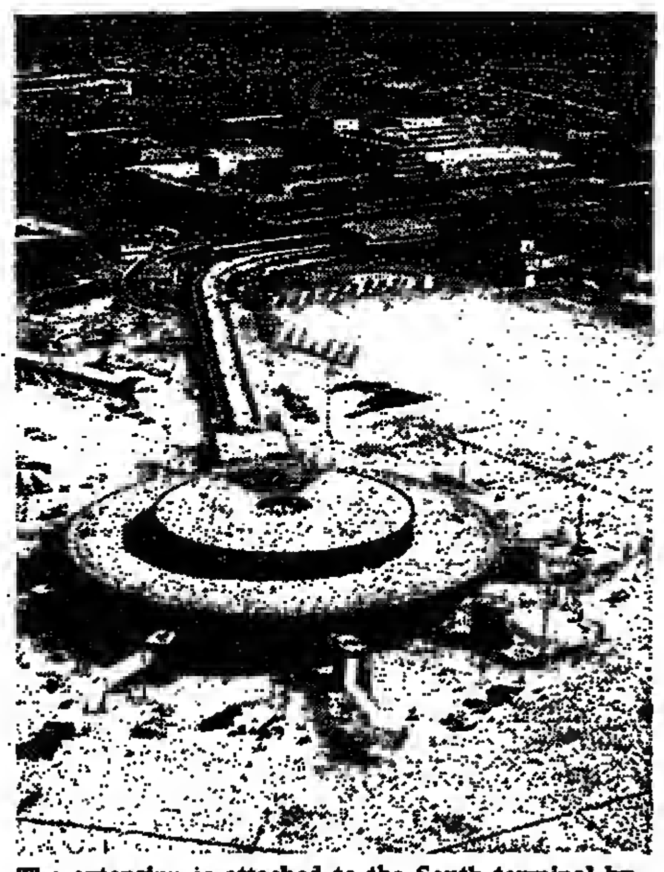
From its beginning in the '50s, Gatwick Airport has always maintained the highest design standards. This has been achieved by the retention throughout all its development of the architects, Yorke, Rosenberg and Mardall—whose practice now goes by the more prosaic title of YRM. They are one of the best firms of architects in Britain today—reliable, steady, clean-cut, and totally devoid of the public relations hype that surrounds so many lesser organisations.

YRM have just completed the new Satellite building at Gatwick. It is the last stage of development of the South Terminal and its distinctive circular form attached to the end of the first elevated rapid transit system in Europe makes a highly noticeable appendage to the airport campus.

To reach the new satellite you pass through the new British Rail station and the clean lines of the main concourse — where everything is clearly designed and simply coloured in black and white — to take the new Westinghouse driverless train. This is an agreeably futuristic experience. Designed to operate in all weather conditions, the little trains, one in each direction, hurtle at what feels like a high speed above the tangle of ground level services.

Arriving at the satellite, passengers enter a much more colourful world. The interior designers, Peter Glynn Smith Associates were given the task of making a circular room into a legible space for shops and lounges with eight gateways to the planes.

The designers have opted for a spectrum of colours, each gate identified by neon numerals and bands of neon radiating from the centre of the ceiling. This is an effective device and one that is quite consistent with the form and layout of the building. Cool colours are used for the areas on the South side and much hotter colours on the cooler North. While many passengers will enjoy the discothèque colour range I think it is an unnecessary addition to the calm elegance of the rest of the airport.



The extensinn is attached to the South terminal by the first elevated rapid transit system in Europe

Although not intended in any way to undermine the integrity of the architecture, the decision to use a separate and rather distinctive company of designers has resulted in a schizophrenic appearance.

In other parts of Gatwick the use of these designers to "cheer up" the passengers has caused the introduction of one of the most hectic and unsettling carpet designs I have seen for a long time. Floors are important, and the longlasting dark terrazzo that YRM have used in the main concourse is infinitely preferable to the dancing patterns of red, blue and green that are beginning to creep around parts of the airport.

The British Airports Authority take design seriously. They are one of the few publicly owned *enterprises* to have a design committee that spends a great deal of time ensuring that the ambiance of travel is agreeable, profitable (with lots of Duty Free shops), and efficient. They are responsible for the excellance of Gatwick as a totality—an excellence that will be greatly enhanced by the provision of YRM's new £200m North Terminal now on site.

There are, however, signs that fashion, rather than the cool logic of good design, is having a little influence. New shops in parts of the main terminal—tricked out in cream and blue cheap tiles—bring an unwelcome touch of Oxford Street to this distinguished building.

Gatwick under the careful hand of YRM, is a sober and elegant place. It also works extremely well. There is plenty of room, and advertising is kept under control so that you can follow the easily-read yellow and black signs. The siting of the airport, close to road and rail and yet with the curtilage of the Surrey trees, completes the attraction of a most amenable facility in our public life.

English Bach Festival

Stanley Sadie

The English Bach Festival was launched just 20 years ago, so the one now in progress may be reckoned to represent its coming of age. I hope the festival will never reach years of discretion. Lina Lalandi's brainchild has always been cheeky, ambitious, often preposterously bold, in *everything* from contemporary music (Greek, British, French) to medieval, with of course special emphasis on the Baroque, French almost as much as German. Miss Lalandi has a noble record of pioneering in Baroque music, and has been in the forefront of the period instrument revival — the authentic dance revival and the stage revival of Rameau (*Platée* is promised for the autumn).

Of course, she has done much to extend our knowledge of Bach, and continues to do so even though the festival is now in somewhat reduced circumstances (it once stretched over an intensive, three-concerts-a-day month, in London and Oxford; now it is a half-dozen London events scattered across May and June). Saturday's Festival Hall programme looks like an innocent presentation of a suite, a cantata and a Magnificat, but there was more to it than that. the Cantata, No. 110, drew on the other works, so we were offered food for thought about Bach and his compositional methods.

I am not sure that he showed up too well as regards his use of the overture from Suite No. 4 to open the cantata. One must beware of assuming that the appropriateness of any piece to any context must be singular: that is a Romantic viewpoint, alien to Bach's time. But this French overture, with its stately, arresting opening and closing sections framing a substantial fugue, logical enough in its original context, seems a fudged piece of work in the cantata, the voice entering as the fugue starts and dropping out when it finishes, with no hint of a functional relationship between the solemn music and the chorus's role. Still, much can be forgiven a composer with Bach's workload, and the other self-borrowing, of a duet written as a Christmas interpolation for the Magnificat for use in a Christmas cantata, cannot be faulted.

Wolfgang Gönnenwein conducted all these pieces with the EBF Baroque Orchestra and the very capable EBF Chorus. The most successful item was the Magnificat, coming last by when the players seemed better attuned to the Festival Hall accoustic (too expansive for this modest-toned band); and here there was some especially good solo singing, from a team headed by the admirable Lynda Russell. The very marked character of the individual movements of this work certainly helped, too. The cantata provided some interesting sounds, with four flutes against Martyn Hill's tenor, and an oboe d'amoure (beautifully phrased) relating very oddly with Paul Esswoods alto. The suite, not played ideally cleanly, was notable for the nicely managed stylised dance gait and the touches of elegance in Mr Gönnenwein's shaping—unauthentic though a conductor's guiding hand, so applied, must inevitably be.

Merrily We Roll Along/Bloomsbury

Michael Coveney

Amid the hurlyburly of openings in the professional theatre it is often a refreshing experience to catch up with what drama students are doing. And so it proves in this zesty, imaginative and immensely enjoyable production by Ian Judge for the Guildhall School of Music and Drama, now visiting the Bloomsbury Theatre, Gordon Street, WC1.

The show is Stephen Sondheim's most recent musical which ran for a mere 16 performances on Broadway in 1981. It is based on the 1934 play by George Kaufman and Moss Hart and, working backwards from 1980 through to 1955, charts the friendship, rise to success and loss of idealism of composer Frank, writer Charley, and Mary, their loyal chum.

The reverse action is triggered by a speech Frank delivers in 1980 to his high school. Now a household name up in Broadway lights, he intones the merits of pragmatism, compromise and making money. Frank is also, by now, a film producer, and his harangue is received with despair by the graduation students. We track back through Californian parties, Frank's broken marriage to Beth, the mid-60s showbiz hubbub, a Broadway first night and television interview.

Sondheim delivers a score of great intricacy which unpicks the familiar blare of his lush, irresistible syncopations and bossa rythms to reveal the pure light of their source. Ingeniously, of course, Sondheim has it both ways, with the recurring chorus of the title number and the limber, insinuating melody of such numbers as "Not a Day Goes By" and "Opening Doors."

In one of the five transation numbers, Frank and Charley are trapped at a piano by a producer's wife and compelled to perform "Old Friends." The song is invaded by a transforming, distorting chorus and orchestra into "Merrily We Roll Along." "Old Friends" itself has tumbled out of a celebratory street scene after a New York opening played in triple time with joyous onstage acrobatics and much twirling of coloured umbrellas.

This stuning central sequence is a fine example of Sondheim operating at the height of his powers. The use of the student chorus, role-changing like frenzy, and the isolated central trio, is reminiscent of *Company* (which I would still rate just a little higher as a musical).

Merrily rolls along at the Bloomsbury until May 19. The orchestra under the direction of Firoz Shapur is a credit to the score, and a most delightful company includes several players for whom a bright future can be confidently predicted: Hutton Cobb and Bernard Wright as the collaborators, the latter an exceptionally sympathetic and adept musical comedian; Deborah Poplett as Beth who does very well with a difficult song; Charles Millham, Andrew Grant and Jenny Dunbar among the rest.

Die Meistersinger/Covent Garden

Max Loppert

On the sound principle that a formula discovered to be successful deserves immediate re-application, the Royal Opera has brought back *Die Meistersinger von Nürnberg* with the conductor, Colin Davis, and most of the principals of last season's admired performances. Success, however, attended Saturday's opening rather more cautiously than might have been expected.

This was, indeed, an odd kind of curate's-egg *Meistersinger*, in which long patches of tedium in the outer acts were later relieved by inspiration, and in which the central act was far more finely proportioned than either of its outer limbs. None of three particularly well-remembered players, Lucia Popp (Eva), Robert Tear (David), or Hans Sotin (Sachs), did him—or herself full justice: in Mr Sotin's case, there continues to exist a strange discrepancy between the glorious bass fullness that his instrument promises, and the nervous constrictions to which his singing and acting are intermittently prey (unlike in 1982, though, Mr Sotin had recovered his form in time for a magisterial final scene). Even by one who prizes Geraint Evans's Beckmesser more for compendious resourcefulness than for rounded humanity, it had to be admitted that Sir Geraint's sheer expertise in the role brought to the stage a contrast of brightness whenever he appeared on it.

Of the two important newcomers, one, John Gibbs's incisive Kothner, was a distinct gain. The other, the Walther of Robert Ilosfalvy (a tenor not heard here since 1968), was more problematical; for though Mr Ilosfalvy quite evidently contains within him the elements of a real Walther, the discipline and concentration needed to compound them continually failed to materialize, leaving in their stead an impression of hooty vocalization and negative, lackadaisical bearing that took the edge off even some phrases of sudden ringing authority. To Sachs and Walther in their long Act 3 dialogue, the prompter's attentions were loudly audible.

With a stageful of unexpectedly uncertain quantities to account for (not, however, Gwynne Howell's Pogner or Phyllis Cannan's Magdalene, both splendidly reliable), Sir Colin's mastery of the opera seemed, in a less welcome sense, more various than before. Openings of both outer acts that were vigorously set out had succumbed to loss of tension by their midpoints; momentum was recovered, but not before one's spirits had sunk quite far. Later performances in the run will undoubtedly come off more completely; choral and orchestral work are already of the proper calibre, and the production still serves (despite spotty stage-management of the final scene change); but concerning Saturday's, it would be dishonest not to register slight disappointment.

Faber prize

Allen Lane and Penguin Books announce that Graham Swift has been awarded the 1983 Geoffrey Faber Memorial Prize for his second novel, *Shuttlecock*.

Much Ado About Nothing/Barbican

B. A. Young

In recent times we have seen this play in modern dress, in British Army uniforms of the first world war, in Indian Army uniforms of last century. In this production, last season's from Stratford, Terry Hands has sensibly avoided putting it in any particular period. Alexander Reid's beautiful costumes clothe the men in doublet and hose, with bountiful supplies of ostrich feathers for their hats and yards of material for their cloaks; the women's dresses are long and graceful and predominantly white. There is unassertive scenery by Ralph Koltai, simple designs on transparent panels before a sky in which stars twinkle day and night. We do not have to judge these people's actions by the standards we should apply to ourselves and our friends. Their motives are the motives Shakespeare gave them; to believe in them literally would be like trying to believe in *Don Quixote*.

Beatrice and Benedict are rescued from the maturity that has threatened them lately; they are carefree young people. Benedict, in the person of Derek Jacobi, is so young that you hardly *notice* his beard, but he makes a great thing of taking it off, with a "strange disguise" that combines his anti-toothache scarf round his jaw with a red cloak and a red plume in his hat that should distract anyone's attention from his face. Beard or no beard, he is the focus of the girls' attention wherever he goes, and no wonder, with his pretty wit and his pretty face, most de*lightfully* presented.

Leonard Burt

Derek Jacobi and Sinead Cusack

Sinead Cusack as Beatrice has a way of clouding her face in temporary unhappiness for momentary periods that can be beautiful. I noticed it at the end of *The Taming of the Shrew*; and here she is at "Indeed, my lord, he lent it me awhile," genuinely sad for a second, before she relapses into her usual tennis-club fun. The comic love-making between these two, after all the worries are resolved, is superbly done. The church scene after Hero's apparent death is matter-of-fact.

The second II rely on romance. Robert O'Mahoney is a handsome Claudio, splendid in love, devilish in indignation; Hero (Clare Byam Shaw) is a beautiful Hero, desirable when wanted, pathetic when rejected. Hero has been given an extra attendant, Josetta, not in my edition. Margaret (Josette Simon, a beautiful black girl) is determined not to remain below stairs, and joins whole-heartedly in the dancing.

I wish I had space to praise the company one by one, down to the little boy with the book, for whom Mr Hands has actually found something to do.

Mathias première/Liverpool

Arthur Jacobs

The annual *Contemporary Composer Seminar* organised by the Royal Liverpool Philharmonic Orchestra, which focused in 1981 on Alexander Goehr and in 1982 on Peter Maxwell Davies, has just concluded a five-day event devoted to William Mathias. A Welsh composer is almost on home ground in Liverpool, and a selection of Mathias' orchestral, choral, chamber and organ work enlisted the co-operation of various local and other performers. On Saturday night at the Philharmonic Hall, the 48-year-old composer was cordially received after Vernon Handley had conducted the orchestra in the first performance of his Symphony No 2.

Subtitled "Summer Music," with Celtic allusions, the three-movement symphony was preceded by the Investiture Anniversary Fanfare (1979) and by the anthem *Let the People Praise Thee*, which was Mathias's contribution to the royal wedding ceremony in 1981.

Not niggardly with words in introducing and explaining his own composition, Mr Mathias stakes a good deal on the virtues of being lucid and communicative. "It is the easiest thing in the world," he informed us in a programme-note, "to write complex, obscure (and for the most part predictably boring) music."

Unfortunately his repetitive, chunky, graceless new symphony suggests an inversion of this statement. It is the easiest thing in the world to assemble a 30-minute patchwork of jogging rhythms, four-square phrases, and the conventional symbols of excitement in military brass and percussion, to decorate with a few impressionistic splashes of tone-colour, and to persuade a patient but unsophisticated audience that this is really what modern music is about.

At a pinch, the musical material might be boiled down to make one of those short, popular overtures of the type once cultivated by Walton and Rawsthorne. But just as they would have shrunk from the blatancy of Mathias' final pages, Walton and Rawsthorne would not have presumed to speak of "the constellation of thought" behind the note. I do not mean it patronisingly but quite honestly, if I assert that where Mathias' talents shone on this occasion was in the short fanfare, in which trumpets, trombones and percussion are used traditionally but inventively, with content and context properly matched.

Mr Handley, as a conductor noted for his interpretation of British music, had an opportunity earlier in the programme to direct the orchestra's strings in a well-tensioned performance of Elgar's *Introduction and Allegro* but Delius's *Sea Drift*, with the Liverpool Philharmonic Choir, turned out disappointingly: Peter Knapp, who has been singing such a lively Don Giovanni for Kent Opera, gave a performance of the solo baritone part which was colourless and underpowered, particularly in lower notes.

New Scottish Academy planned

A new Royal Scottish Academy of Music and Drama is to be built in Glasgow at an estimated cost of £16m. Mr George Younger, Secretary of State for Scotland, has announced that he has organised the Academy's governors to invite tenders for the new building which is aimed to be completed by 1987.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

May 13–19

LONDON

Academy of London conducted by Richard Stamp with Meriel Dickinson, contralto and Yehudi Menuhin, violin. Sir Lennox Berkeley 80th birthday concert. Mozart and Berkeley. Queen Elizabeth Hall (Mon) (928 3191).

Lionel Hampton and orchestra. Barbican Hall (Mon). (638 8891).

Philharmonia Orchestra conducted by Lovro von Matacic with Lynn Harrell, cello. Mozart, Haydn and Beethoven. Royal Festival Hall (Wed). (928 3191).

Royal Philharmonic Orchestra conducted by Kurt Masur with Kyung Wha Chung, and Paul Tortelier, cello. Mozart, Brahms and Dvorak. Royal Festival Hall (Thur).

City of London Sinfonia directed by Stephen Cleobury, harpsichord. Handel, Purcell, Pachelbel, Bach and Vivaldi. Barbican Hall (Thur).

Ronnie Scotts, Frith Street: Tenor-saxist Arnett Cobb (ex. Lionel Hampton). (439 0747).

PARIS

Grace Bumbry, recital with piano (Mon) TMP - Chatelet (261 1983).

Gala de la Fédération Internationale des Droits de l'Homme: Bach, Poulenc, Faure, Ravel, Mendelssohn (Mon), Theatre des Champs Elysees (723 4777).

Alicia Nafe recital with Miguel Zanetti: Monteverdi, Vivaldi, Haydn, Moussorgsky, de Falla (Mon); Theatre de l'Athenee (742 6727).

Ensemble Orchestral de Paris conducted by Jean-Pierre-Wallez, Ortrun Wenkel, contralto: Handel, Wagner (Tue), Theatre des Champs Elysees (723 4777).

Orchestre de Paris conducted by Rafael Kubelik with Mira Zakai, the Orchestre de Paris choir conducted by Arthur Oldham: Mahler's Symphony No 2 (Wed, Thur) Salle Pleyel (563 8873).

Caballe/Lombard concert with the National Opera Orchestra: Strauß, Beethoven, Wagner (Thur), Paris Opera (742 5750).

Stephen Bishop-Kovacevic, piano: Berg, Beethoven, Brahms (Thur) Theatre des Champs Elysees.

NEW YORK

New York Philharmonic. Andrew Davis conducting, Vaughan Williams, Elgar, Dvorak (Tue); Andrew Davis conducting, Lorne Munroe, cello. Birtwistle, Walton, Beethoven (Thur). Avery Fisher Hall (874 2424).

Alfred Brendel, piano. Beethoven. (Mon, Thur). Carnegie Hall (247 7459).

Philadelphia Orchestra: Eugene Ormandy conducting, Eugene Istomin, piano. Beethoven, Brahms (Tue). Carnegie Hall (247 7459).

Nash Ensemble of London: Mozart, Beethoven, Spohr, Hummel, Maw, Bainbridge, Knussen. (Mon, Alice Tully Hall: 362 1911; Tue, Symphony Space: 95th & Broadway (864 5400).

Concert Royal: St Thomas Choir. Purcell (Tue). St Thomas Church (53rd & 5th Av, 757 7013).

WASHINGTON

National Symphony: Peter Maag conducting, Gary Karr contrabass. Mozart, Koussevitzky, Bottesini, Mendelssohn (Tue, Wed, Thur). Concert Hall, Kennedy Center (254 3776).

William Schuman: composer and commentator in American Composers series (Tue), Terrace, Kennedy Center (254 9895).

CHICAGO

Chicago Symphony: Leonard Slatkin conducting, Claudine Carlson mezzo-soprano. Haydn, Britten, Schumann (Thur), Orchestra Hall (435 8122).

VIENNA

Musikverein (658190): Vienna Symphony Orchestra, conductor Georges Pretre. Berlioz and R. Strauss. (Wed and Thur).

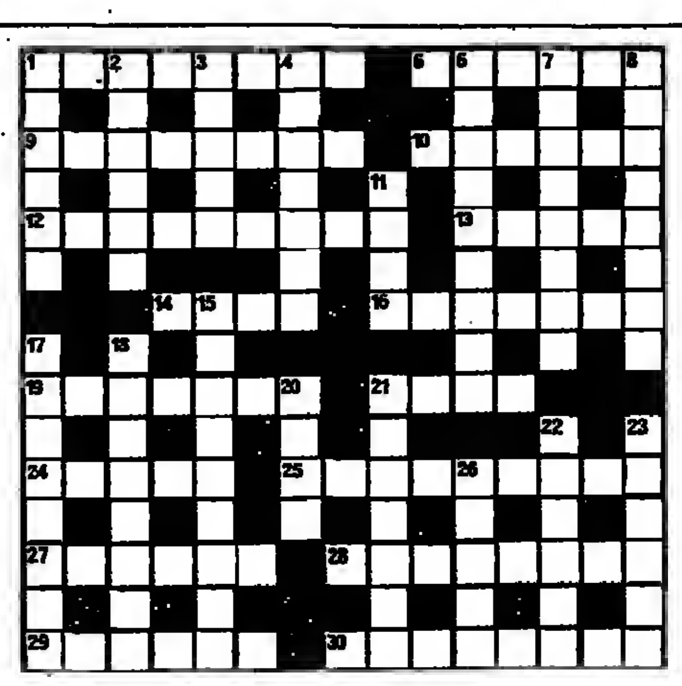
Konzerthaus (721211): Yo Yo Ma, cello. Bach (Tue); Alban Berg Quartet. Haydn, Von Einem, Beethoven, (Thur).

Secession. Festival of Ensembles representative of trends in new music, such as minimal music and others. Meredith Monk and vocal ensemble (Tue and Wed), The first appearance of Meredith Monk in Vienna.

ZURICH

Tonhalle: Tonhalle Orchestra conducted by Gary Bertini with Garrick Ohlsson, piano. Brahms and Beethoven (Tue); Orchestra of North German Radio conducted by Günter Wand. Bruckner (Wed).

F.T. CROSSWORD PUZZLE No. 5,172



ACROSS

1 Young trainers coming from the races (8)
5 Pupils of the past, perhaps (6)
9 Victorian poet getting sunburnt (8)
10 Underground roots (6)
12 Capricious female (5-4)
13 He's found among fuel merchants (5)
14 A lifetime of bridge (4)
16 Book for the big race? (7)
19 A decoration so often out of place (7)
21 Such pomposity is not a front (4)
24 Girl I care about (5)
25 Theatre—where they now indulge in bingo? (9)
27 A loose relative (6)
28 Break finger in scuffle (8)
29 Charging a convict about an uproar (6)
30 Indian State capital (8)

DOWN

1 Water tower includes a receptacle for pipes (6)
2 About three minutes' fighting (6)
3 A Haydn composition made available (5)
4 Managed to continue with foreign capital (7)
6 and 26 Evergreen and enduring comedians (8, 3, 5)
7 Make little of (8)
8 The affluence they enjoy is apparently unmerited (4, 4)
11 Ring starts involuntary movement of the ear (4)
15 Trying time for a beginner (9)
17 Nevertheless desirous of obtaining a monopoly? (5, 3)
18 Allotted as indicated (8)
20 Reel up with some drinks (4)
21 Watertight huts can fall into disrepair (7)
22 Hand over and retire (4, 2)
23 Cut over a quarter? That's serious (6)
26 See 6 down

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

Solution to puzzle No. 5,170

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday May 16 1983

A chance to help Paris

FINANCE MINISTERS of the European Community today have the opportunity to underwrite the anti-inflationary policy launched by the French Government at the time of the devaluation of the franc in March. The ministers will be asked to rule on a French application for a Community loan, believed to be of EUA 4bn (about £2.4bn), which is intended to help France over the long haul to internal and external stability.

The stabilising measures taken by the French Government in March were hotly contested at the time. Neither President Mitterrand nor M Pierre Mauroy, the Prime Minister, initially took a firm public stand in support of a package that was bound to alienate many voters and was repugnant to established Socialist doctrine.

Tradition

It is notable that subsequently both men have made public statements swinging their support behind the policies devised by M Jacques Delors, the Finance Minister. It is he who, at this moment, is the best guarantor of a French policy recognising international market realities rather than one based upon protectionism and other isolationist policies.

Of course that must be taken with a pinch of salt. France has a protectionist tradition going back three centuries and is ready to use administrative intervention to protect national interest. The fact remains that in March, Paris accepted the humiliation of devaluation instead of pulling out of the European Monetary System or otherwise going its own ways.

The European Community and the West at large has an interest to ensure as far as it can that such isolationist trends are not encouraged. It has been one of the most heartening aspects of M Mitterrand's presidency that he has taken his country closer to the western alliance than any of his predecessors in the Fifth Republic.

The austerity measures have aroused strong and predictable opposition both from the interest groups directly affected and from the left wing of the Socialist Party, notably M Jean-Pierre Chevenement, the former Minister of Industry. He has argued that membership of the EMS imposes an unacceptable limit on French freedom of action and is pushing the country too far in the direction of policies pursued by the previous Prime Minister, M Raymond Barre.

Some might suggest the Mitterrand Government has only itself to blame for its troubles and that the best thing for France and the rest of the world would be for the unrest in the country to force early elections leading to a return of a government of the right. The Socialist Government, however, was democratically elected with a clear majority. For France's trading partners what matters is not that the left should be brought down prematurely but that it should reconcile its socialist aspirations with the realities of the world economy.

The Mitterrand Government made several bad mistakes, not least in allowing public spending (bloated by losses in the nationalised industries) to get out of control. An attempt is now being made to correct these mistakes and it is not in the interest of France's allies to make the task any more difficult. If present policies fail there is a risk either of a retreat into Fortress France or of political disorder, arising from frustration and impotence on the left.

Aspirations

If Socialist France is to take account of world economic interdependence in its domestic policies then other industrial countries must do the same. The dismissive reaction of Mr Donald Regan, the U.S. Treasury Secretary, to the recent report on exchange rate intervention was seen in France as another sign of U.S. indifference to the impact of its internal policies on the rest of the world. It would be wrong for France to blame its troubles on the strength of the dollar or to seek salvation in international monetary reform.

France's allies, however, by their attitudes and behaviour must not encourage the go-it-alone tendencies which still exist in the Mitterrand Administration. That is one reason a constructive outcome to the Williamsburg summit is so important.

Air fares and competition

THE CASE for deregulation in civil aviation is apparent to anyone who uses the larger routes out of New York and keeps an eye on the cost. According to a report published by the British Civil Aviation Authority last week the fare may well come to a mere third of the cost of the cheapest fare for routes of comparable distance from London; and it also argues that only part of the significantly higher running costs of European scheduled airlines can be explained by the differences in operating environment between the U.S. and Western Europe.

These assertions are, however, culled selectively from a report whose comparison of U.S. and European fares does more to cast doubt on the arguments for an "open sky" free-for-all than to encourage rapid steps in that direction. In seeking to establish what lessons can be drawn from the American experience of deregulation the Civil Aviation Authority warns against the assumption that fares on the New York-Los Angeles route tell the whole story.

Variety

Few would deny that deregulation has had positive results. Since the U.S. experiment began, the consumer has enjoyed a much wider range of fares on most American routes. Competition has powerfully influenced the level of fares, particularly where new entrants have come into the market, and productivity has soared.

The routes where fares have fallen in real terms since deregulation are, however, the big ones that are served by several airlines including such aggressive new entrants as People Express. And while comparisons are difficult because of the enormous variety of fares, differing availability of seats and different market structures—charter flights play a less important part in the U.S. market, for example—there seems little reason to doubt the broad assertion that typical fares on smaller routes have risen faster than costs in the new environment.

Here, where competition is weak, the report estimates that fares are only 10-15 per cent less than the lowest comparable fare from London for the same distance, on the basis of recent exchange rates. Nor is this just a question of the free market imposing a penalty for remoteness. Routes which are very dense by European standards, such as Pittsburgh-Philadelphia, apparently attract high fares.

Several small operators have recently gone to the wall, but among the larger airlines only Braniff has foundered. While others are illiquid and in many cases making big losses, the depth of the banking crisis has encouraged bankers to keep their clients afloat through rescheduling in order to avoid the erosion of reserves that would come from increased bad debt provisions.

Losses

In other words, the market does not yet reflect the underlying financial consequences of the tooth and nail competition that followed deregulation.

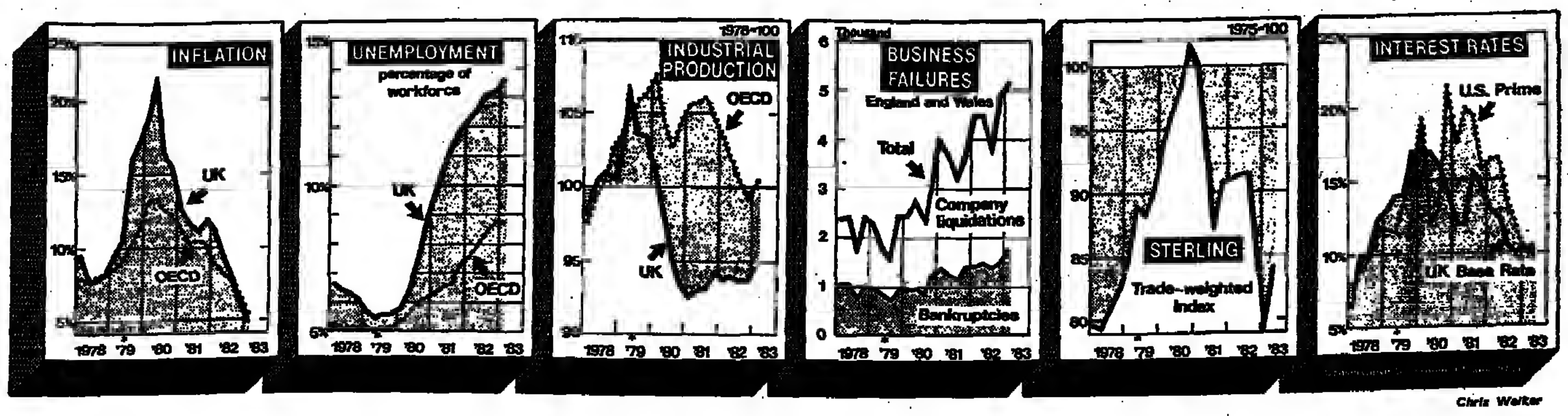
A more extensive shake-out is probably inevitable and when it comes fares will rise, just as fares out of Dallas soared when Braniff was grounded. A straightforward upturn in traffic, prompted by economic recovery, could similarly put upward pressure on prices in the absence of a regulatory ceiling.

None of this invalidates the case for deregulation. Part of the purpose was precisely to bring capacity more into line with demand and to eliminate cross-subsidisation.

In Britain, the Conservative desire for the privatisation of British Airways should, at the very least, prompt fresh thinking about the role of the country's leading international carrier in the domestic market. However, both geography and subsidised alternative transport make Britain a less plausible beneficiary of deregulation than the U.S. Even with regulation, British airlines scored an overall loss on their domestic operations of £50m in 1981.

In Western Europe moves towards deregulation are complicated by the lack of a common political framework and by the determination of governments to protect their national airlines. A greater transparency of subsidies would be helpful but the urgent need is to make it easier for new entrants with lower costs to challenge the established operators. The pace of liberalisation is bound to be slower than in the U.S. but should not be dictated by those who have vested interests to protect.

THE BRITISH ECONOMY



Chris Walter

The impact of Tory monetarism

By Max Wilkinson, Economics Correspondent

THE case for the prosecution is stark and simple: the Conservative Government which won power four years ago with the slogan "Labour isn't working" has presided since then over the steepest rise in British unemployment since the 1930s.

Moreover, the prosecution argues, an administration which started its term with monetary discipline as the cornerstone of its anti-inflation policy has failed in three years out of four to meet the targets which it set itself for the growth of the money supply.

By June 9 voters will have made up their own minds about the last four years. Their verdict is likely to depend crucially on whether they think the 1.7m rise in unemployment—to over 3m—was a price the country needed to pay in return for a sharp drop in the inflation rate.

The party machines will provide them with a barrage of statistics and argument on this subject as the campaign gets under way. But much of this electioneering material is more likely to hinder a balanced assessment than to help it. This is because the record — summarised in the graphs above — needs to be set carefully against the enormous stresses on the world economy during the period.

The prosecution argues that the world recession is not by itself an adequate explanation of the scale of redundancies and lost output in the UK since 1979, especially as it did not reach its trough until 1982, almost three years later.

Ministers, so this argument goes, started with a much too simple faith in the efficacy of controlling a single money variable, sterling M3 (cash and bank deposits) and this led the government into two errors. First it badly under-estimated the inflationary effects of raising Value Added Tax to 15 per cent in 1979. Second, the following year, it was misled by the rise in sterling M3 and so failed to appreciate the severity of its squeeze on business.

Certainly there is strong evidence that back in 1979, when the Government was measuring out its anti-inflation medicine, it had little idea that unemployment would rise as fast as it has done.

Sir Douglas Wass, who retired this Easter as Permanent Secretary at the Treasury, said in a recent interview with the FT that the shakeout of labour in 1980 took the Treasury by surprise. "This was a genuine failure on our part to predict the response of the private sector to the very strict financial squeeze . . ." he said.

The exceptionally sharp squeeze reflected fears of runaway inflation in the wake of the oil price shock of 1979. When the Government came to office on May 4, prices were already on a rising trend, with inflation at 10 per cent compared with 8 per cent the previous autumn.

With the oil price increase about to raise domestic costs—and with both parties pledged to honour the Clegg Commission's 30 per cent pay awards for certain public sector workers—it was already clear that inflation was set to go up steeply.

In his first Budget, just after the election, Sir Geoffrey Howe, the Chancellor, chose this moment to give prices a 4 per cent upward push by his increase in VAT—a measure needed to balance the effect of his cuts in income tax.

One outspoken critic of this move at the time was Mr Terry Burns, now the Treasury's Chief Economic Adviser, but then still head of the London Business School's Centre for Economic Forecasting.

In a joint article with Professor Alan Budd, his successor at the school, he warned clearly that the VAT increase could lead to greater unemployment if unions raised the bidding in the wage round to restore members' earning power.

This article, which now has a prophetic ring, predicted that the system would come back to equilibrium, but only after a "painful process" of unemployment, accompanied by strains on the company sector and the financial markets.

It said: "The Government has created severe problems for itself by combining policies needed to reduce the Public Sector Borrowing Requirement . . . with a large switch from direct to indirect taxation."

By the end of the year (1979) Professor Burns had been pulled out of the Business School to head the Treasury's economic service, and the school's plea for a carefully thought out medium term financial policy had been accepted.

During the next two years the Government shifted to a more flexible and pragmatic interpretation of monetarism, with more attention paid to the exchange rate and a range of money supply indicators.

However, by 1980 industry was reeling under the double impact of a base lending rate which reached 17 per cent in the autumn of 1979 and a 20 per cent appreciation of sterling between the beginnings of 1979 and the end of 1980.

Professor Budd, who remains a supporter of the Government's general strategy in spite of some harsh criticisms, says "The mistake in 1980 was not to recognise that monetary policy was too tight, to see that the pound had risen to an excessive level and to take action to bring it down."

GROWTH OF STERLING M3
annual percentage rise

	1979	1980	1981	1982	1983*
Target range	8–12	7–11	6–10	8–12	7–11
Result	13.5	16.3	14.7	10.3	14

* First four months at annual rate.

However, with average earnings rising at an annual rate of 18 per cent in 1980, the Government was in no mood to relax its hold.

Sterling continued to rise until the beginning of 1981, partly because of the financial squeeze, which raised interest rates and sucked in foreign capital and partly because of a strengthening balance of payments as North Sea oil came on stream.

But by the early spring of 1981, two years after it came into office, the tide began to turn somewhat in the Government's favour. North Sea oil and the depressed state of imports were pushing the balance towards an unprecedented surplus of £6bn for the year, yet sterling was falling from its uncomfortably high level, inflation was coming down and UK interest rates were also falling.

The build up of North Sea oil revenues was also helping to contain government borrowing, which would otherwise have reached horrific levels because of the drain of unemployment benefits.

There was also a feeling that the shake-out of labour, however painful, was bringing ultimate benefits to industry. Profitability was at an historic low level, redundancies were being announced at the rate of about 44,000 per month, three times the rate in 1979, and there was little hope of a pick up in orders.

Many senior Conservatives believed this was the time to give some help to industry with a mildly reflationary Budget, but in spite of the help from oil revenues public sector borrowing had been badly overshooting.

Mrs Thatcher and Sir Geoffrey Howe decided to help industry in a way which had never been tried before—with a tighter Budget at the trough of a recession. A cut in public borrowing, as Sir Geoffrey explained, was intended to relieve the strain in financial markets, and allow interest rates and sterling to fall.

This seemed to work very well initially; but by the autumn the fall in sterling, by now down some 15 per cent from its peak, looked as if it might turn into a collapse, and the Bank of England mounted a squeeze which forced interest rates up by 3½ per cent, to a considerably higher level than before the Budget. This snuffed out the tentative industrial recovery which Ministers had prematurely welcomed — the first of the false dawns in the economy.

Another disappointment followed in 1982, when sterling was stable and UK interest rates were able to fall well ahead of the decline in the U.S. This time outside conditions could fairly be blamed, for world activity was falling steeply; but the Government had established a record of premature optimism which has led to a rather muted welcome for the present, apparently more strongly-based recovery, and lends some colour to Opposition claims that things may soon take a turn for the worse again.

Mrs Thatcher's popularity, which had fallen very low during the winter of 1981/82, recovered sharply as a result of the Falklands campaign; but the second correction in sterling, which has done much to revive industrial confidence, was due to events in the oil market rather than to Government policy. The events of 1979 were reversed.

In the autumn of last year sterling fell sharply again and the currency was not defended very strongly. The inflation rate had by then fallen much lower than had been expected, partly because of the weakening of world commodity prices.

For much of industry the combination of low inflation and the improved profitability resulting from the latest fall in sterling seemed to point to a significantly brighter future. Profits have revived markedly and the latest industrial surveys suggest at least a modest pick up in orders. Yet the rise in unemployment continued.

When the election was called last week the crude figures (up to the latest date) for the four-year period showed:

- Unemployment had risen by 1.71m from 1.3m to 3.02m;
- Prices had risen by 51.8 per cent, making an average inflation rate of 11.5 per cent in the Thatcher period compared with an average of 15.4 per cent under the previous Labour government;
- Earnings had risen by 63 per cent, equivalent to an average annual rate of 14 per cent;
- Industrial production had fallen by 9.9 per cent;
- Sterling was little changed over the period, with its trade weighted index against a basket of currencies 2 per cent below its value when Mrs Thatcher came to power.

Finally, the statistics of the Conservative term need to be seen against the long term difficulties of the British economy, with its notoriously inflexible labour practices and low overall productivity which probably represented a large amount of "concealed unemployment."

In the cold winds of the past two years many of these practices were "shaken-out" with the result that the so-called "natural" rate of unemployment is thought to be far higher than it was a decade ago. Professor Budd believes unemployment might be 1½m to 2m even when industry picks up to "full stretch" again.

He thinks the underlying rate of inflation has been reduced from 14 per cent to 6 per cent at a "cost," put crudely, of 200,000 jobs per percentage point.

He cautions that the full cost is not yet known. It will be very different if 1½m "extra" unemployed have to stay out of work indefinitely in order to keep inflation at present levels. For the next few years the Business School, along with most other forecasters, expects unemployment to remain at about present levels.

In spite of his criticisms of past errors, he believes that a further period of tight financial policies is needed, and this seems broadly the view of other Governments, including those of West Germany, the U.S. and Japan.

A final assessment of the past four years' economic management has to take into account the more intangible question of whether Mrs Thatcher's Government has started to make a fundamental change, not only in inflationary expectations but also in attitudes towards competitiveness and productivity.

Even Mrs Thatcher's critics concede that the shake-out of labour did lead to a remarkable rise in productivity, which was strongest in 1981, and managers have since talked of a change in flexibility at work and in bargaining attitudes. The unanswered question throughout has been how far this is simply a response to bad times, and how far to the knowledge that the Government was no longer willing to try to shelter the economy from market realities.

Have we broken through, or will we go back to the old ways? We will discover the answer only when we enjoy a recovery which lives up to its promise. The Tories have endured many disappointments, but do now have the benefit of the doubt.

Men & Matters

Wool futures

Musical chairs is the fashionable game in the textiles world at the moment.

The British Textile Confederation got a new president in ICI Fibre's John Lister last week. Now the Textile Institute has appointed John McPhee, deputy managing director of the International Wool Secretariat, as its next president.

McPhee, aged 52, might be described as a quiet Australian —none of the razzamatazz often associated with his countrymen for him. A graduate of Melbourne and Oxford, where he took a doctorate, he has worked in Britain with the IWS for the past 17 years. One of his successes has been to develop a process for making wool products fully machine washable.

As head of the Manchester-based institute he will be expected to do a lot of travelling. The institute has members in more than 90 countries. "I think they chose me" he joked, "because I already travel a lot. And this is a cheap way for them to get their president to meet the membership."

One of his first tasks has been to launch a scheme for international patrons which will increase the institute's income substantially. Much more fund-raising is likely during his two-year presidency.

I predict that we shall be hearing more of McPhee quite soon. At the end of the year the managing director of the IWS, Gerry Laxter, is retiring. The betting in Wool House, the IWS sumptuous HQ in Carlton Gardens, London, is that the wool masters who control the purse strings will look no further than McPhee for the top spot.

Road to Damascus

Having been a hot issue in the 1970s the Arab boycott has dropped out of the headlines in recent years.

So there has been surprise in the U.S. at the news that the Damascus-based central boycott office of the league of Arab states has placed the leading Wall Street investment bank Salomon Brothers on its boycott list.

Although Salomon tells my man in New York that it does not understand the reason for the move it is generally assumed that the boycott office has been spurred into action by Salomon Brothers' merger with Philipp Brothers, the international trading group, more than a year ago. Philipp Brothers is thought to have been on the list for some time.

John Gutfreund, Salomon's chairman and chief executive, is understandably angry. "As an American firm we resent this action," he says. "Participation in this boycott is illegal under U.S. law."

What is unusual, however, is that he has been prepared to condemn the move in public. In the past most firms that have been subjected to the attentions of the Arab boycott office have tended to be almost paranoiacally shy about what has happened.

The immediate explanation is that rumours about the boycott were beginning to spread and Salomon wanted to set the record straight. According to Gutfreund: "There is no transaction pending, nor do I know of any, where there is a problem."

Indirectly—and Salomon has not said so — there is the Western view that the Arab boycott office in 1983 is by no means the powerful weapon it used to be in the 1970s when King Oil was all powerful.

Gutfreund says that Salomon's business will not be affected by the action. That may sound bold talk considering that it has some very substantial Middle Eastern clients and, through its London office, managed or co-managed Eurobond issues amounting to more than $22bn last year.

Yet a number of companies, including Philipp Brothers have done good business with Arab clients over the years in spite of being on the boycott list.

AT and T, which is also believed to be on the boycott list, is an example of a company which has raised money directly in Saudi Arabia.

The boycott decision is not irrevocable as has been demonstrated by both Barclays Bank and S. G. Warburg which have been boycotted at one time or another but are no longer on the list today.

"It's only our Law students protesting—wait until the Economics lot start."

Election rocks

Mrs Thatcher's June election decision has been bad news for those rocky offshore havens the Channel Islands and the Isle of Man.

The islands are tax havens rather than wreckers' retreats these days. They had expected to see the end of a much-disliked provision of the 1975 Finance Act which deemed emigrants on to their small acreages to be permanently domiciled in the UK for capital transfer tax purposes.

The islands' authorities have always regarded this arrangement as highly discriminatory. Britons emigrating to other parts of the world are let off the CTT hook after three years.

The islands won two concessions in 1977. One exempted them from the deemed-domicile rule home-going Channel Islanders and Manxmen who had made their fortunes on the mainland. The other excluded in all cases assets which were accumulated after leaving the UK.

The really important concession desired by the islanders—the abolition of the restrictive rule itself—was, however, to be made in this year's Finance Act.

As luck would have it that was one of the sections of the Finance Bill to be dropped in last-minute bargaining between the Government and the Opposition before the Parliament ended.

Now the offshore islands see little hope of having their concession—unless the Tories get back.

Playback

The City attracts many talents but I was slightly taken aback to learn that stockbrokers Sheppards and Chase have an analyst who taught backgammon to Playboy bunnies before joining the firm.

Dominic Freud, son of Liberal politician Clement, now watches the chemical and drug industries.

He tells me he once spent nine months at Playboy's Chicago headquarters as resident backgammon coach.

That mainly involved sitting at the poolside giving lessons to bunnies and guests.

And life at Sheppards and Chase after that? . . . "Oh, much the same," he claims.

Observer

Uganda Asians

The long road back

By Michael Holman, recently in Uganda

THEY HAVE come from Manchester and Madras, London and Delhi, briefcases in hand. They spend their time revisiting the businesses and homes that were once theirs, and gather at the end of the day around a pot of coffee on the verandah of Kampala's *Speke* Hotel.

They are returning Uganda Asians, resilient, resourceful but wary, an advance guard testing the ground opened up by the Expropriated Properties Act of February this year. Some 60,000 were expelled by Idi Amin in 1972 (40,000 were British passport holders), and their properties either nationalised or handed over to black Ugandans.

The Speke Hotel itself is one example of what can happen. Its former owner negotiated its return prior to the Act and the establishment now flourishes. Visiting businessmen happily pay $45 a night for a modest room, unlikely to have regular water, in what is nevertheless the best hotel in town.

Whether claims under the new Act will go as smoothly is debatable, for the political ramifications and financial complexities of the vaguely-worded legislation are considerable.

Perhaps it is just as well that it leaves considerable discretionary powers in the hands of the Minister of Finance—a portfolio held by President Milton Obote himself. Any lesser person might be unable to put it into effect. For, despite the arbitrary brutality and adverse impact on the economy, Amin's expulsion of the Asians was popular among black Ugandans. Today the prospect of their return, albeit probably in small numbers, is not greeted with any enthusiasm.

In principle, the former owners of any property or business may apply for repossession of their assets, if they are prepared to occupy the property or run the business for the next five years. Should the application be for a nationalised business which the Government wishes to retain, joint venture terms may be negotiated. Alternatively, the minister may issue a certificate which will authorise the former owner to repossess the property. Claims can be sent to offices in London, New Delhi, Ottawa and Nairobi.

Claimants now have only until Saturday to register for repossession of their properties, but if they are merely seeking compensation, there is no immediate deadline.

Apart from attempting to make redress, the Act has considerable economic implications. On the one hand, as long as there is doubt about the ownership of many commercial and industrial properties, injections of rehabilitation funds—whether from aid donors or commercial lenders—will be held up. On the other, the Ugandan Asian community could provide managerial skills which are in desperately short supply.

Both the retail sector and manufacturing industry were once dominated by Asians, especially such areas as agricultural processing and textiles. It is unlikely they will recover their old trading role, but shortage of their skills in other sectors is proving a serious drag on the pace of Uganda's economic recovery.

Most observers, however, believe that comparatively few Asians will return.

"Almost all of those who left will file claims", said one Asian who had returned in the hope of recovering his business. "But I doubt whether more than 1,000, at the very most, will either want, or be able, to come back here".

He listed a forbidding range of complications;

October 1972: Kenyan officials check the papers of Asians expelled from neighbouring Uganda

● Although some leading families have negotiated recovery of their business before the introduction of the Act — such as the Madhvani and Mehta groups, who arranged joint venture terms for their extensive interests in plantations and factories — it will be a brave man who attempts to enforce a possession order for a trading store which may have been run by an African for the past few years.

"Unless you have a friendly politician or senior civil servant behind you", said the businessman, "it will be very difficult".

● Some of the properties have been used as security for loans or mortgages. The Act simply says that the minister "will hold consultations" with the former owner and the bank or financial institution concerned "to try to secure mutually acceptable arrangements." No further guidance is given.

● In cases where property is returned, the occupant is entitled to compensation for improvements he may have undertaken. In anticipation, many African owners are now setting about "renovations"—which might only be a coat of paint—and are ready to present substantial claims for the compensation the Act allows.

● Former owners are entitled to compensation if they do not wish to return to Uganda, or if, for one reason or another, their property is not returned to them. But the question of valuation remains alarmingly vague: no one seems certain whether it will be calculated at prices operating at the time of nationalisation, or at today's prices.

● Will claimants be allowed to remit their compensation payments abroad, even in small amounts over a long period? The Act simply says it "shall be paid over such a period and in such a manner as the Minister may determine or negotiate."

Asians are asking whether they will be allowed to use the weekly currency auction organised by the Bank of Uganda, in which the Uganda shilling floats freely against the U.S. dollar (at around $1=270 shillings). No one believes they would be allowed to remit their funds at the alternative controlled exchange rate ($1=125 shillings), reserved for priority imports. Yet few believe the Uganda Government is in a position to allow such a drain on its precarious foreign exchange resources, at whatever exchange rate.

Most of the 10,000-15,000 Asian families who were expelled have no intention of returning: Africa is far too uncertain, and the majority have successfully settled into new homes and businesses in Britain, Canada and elsewhere. But some argue that there is little to lose should a son, daughter or relative return to Uganda and pursue the family claim.

At this point informal negotiations are taking place before claimants resort to the Act. Thus one returning businessman is offering the occupants of the block of flats he used to own cash inducements to leave. Others will consider offering a partnership to the current owner of the business: some will offer a "directorship" to a politician or civil servant prepared to lend a hand.

Ugandan Asians who are British citizens have demanded that the British Government play a more active role in pursuing an estimated 7,500 individual claims on their behalf, but with little success to date. The Foreign Office in London, and the British High Commission in Kampala, maintain that it is now strictly a matter between claimants — including such British companies as Shillington Hoes, BAT and Dunlop —and the Ugandan Government.

Unemployment: the biggest issue of concern

By Malcolm Rutherford

THE SURVEY of international opinion sponsored by the Atlantic Institute in Paris and carried out by the Louis Harris organisation across nine countries last month must be one of the most comprehensive ever conducted.

It concentrated on economic matters, partly because of the imminence of the economic summit meeting in Williamsburg at the end of this month, but defence was also considered. The FT was one of the backers. Here is a purely personal view of some of its voluminous findings.

● Unemployment is now the greatest single issue of concern in all the countries covered except Japan, which was not included in the first Atlantic Institute survey in September last year.

It is of most concern in West Germany where it was stressed by 82 per cent of respondents—up 7 percentage points from September. It is also of rising concern in the U.S. Only 52 per cent of American respondents put it as the main issue, but that was still 10 points up on a few months ago.

Oddly enough, unemployment seems to have abated slightly as an issue in Britain. Respondents giving it greatest priority numbered 67 per cent, fractionally lower than before.

● Inflation is seen of declining importance, though it is still a major issue in France (48 per cent) and Italy (43 per cent).

● The belief that poor political leadership is itself a cause for concern is at its strongest in the U.S., and has grown steadily in the last few months. It was listed by as many as 36 per cent of American respondents — up by 10 percentage points from last September. By contrast, the figures for France, Germany and Britain were 14, 14 and 17 per cent respectively, all of them a few points down on before.

It should be added that America's decline of confidence in its political leadership does not necessarily mean a retreat from President Reagan. The breakdown of the findings suggests more a lessening of confidence in Congress and the Administration in general, which could be a quite different matter.

● On most issues British opinion tends to have more in common with that of the U.S. than with continental Europe. This comes out particularly in attitudes towards the current economic situation.

Only 20 per cent of British respondents and only 10 per cent of Americans agreed that "we are experiencing a severe long-term economic crisis which will require fundamental adjustments and which can only be solved at an international level." The comparable figure for France was 28 per cent and for Japan 37 per cent.

Another British oddity: far more Britons (30 per cent) than anyone else, including the Americans (18 per cent), thought that solutions to the economic crisis could be found at *home*.

The British and Americans agreed again (27 per cent and 42 per cent respectively) with the fairly bland proposition that "we are experiencing a period of economic difficulty but growth should resume over the next two years if appropriate steps are taken." Only 7 per cent of the Japanese were of that opinion, and only 20 per per cent of the French and Germans.

Britain and the U.S. came together once more on the question of trade with the Soviet Union and the Eastern bloc. They were the only two countries with the majority against trying to increase it as one way of seeking to resolve present economic problems.

The American figure here, however, was intriguing. It divided 46 per cent in favour of increasing East-West trade and 49 per cent against. Most other countries had a large number of "not sures." In Germany this was 23 per cent, in Italy 31 per cent and in Japan 44 per cent.

● Governments which want to raise defence spending, or even to maintain it, face a fairly hard task in the light of what is revealed here about public opinion. Respondents were asked whether they would like a reduction in defence expenditure so that some of the money might be used for the social services, health and education. There was a majority in favour in every country.

In President Mitterrand's *France it was 81 per cent. In* President Reagan's America it was 69 per cent and in Mrs Thatcher's Britain 58 per cent. Norway has become more stalwart: 41 per cent opposed the proposition.

● There is a considerable readiness to make sacrifices in favour of the creation of new jobs, but the preferred approach differs from country to country. In Britain 44 *per* cent opted for early retirements, accepting a slightly lower pension. Germany (38 per cent) and Spain (47 per cent) were broadly in the same division, but for the U.S. the figure was only 32 per cent and for Japan 11 per cent.

Other preferred options included an incomes policy—"no pay rises in the next two years" —and "shorter working hours with *proportionally less pay*." Both had quite widespread support across the sample.

There appears to be almost no sympathy for trying to create new jobs by a reduction in health care and retirement benefits. Only in the U.S. and Japan did support for that rise to double figures — 13 per cent in both cases. In Britain and Germany it was 4 per cent.

● Japan had easily the largest number of "not sures" in every category. Whether that is because the Japanese are not attuned to Western opinion polls, prefer to sit on the fence, or have some inscrutable wisdom of their own is an open question. But it is an interesting finding in itself.

There were lots of contradictions. *For example*, apparent support, especially in Britain and the U.S., for import controls to protect national producers, but, in answer to another question, a majority belief in the need "progressively to reduce trade restrictions and encourage free international trade."

Again, concern about the "threat of war" seems to have declined quite *sharply* in France and Germany in the last few months, but concern about nuclear weapons in Germany and Italy has gone up even more. A different kind of war, *perhaps*.

One or two notes about Britain since it is, after all, facing a General Election. Far more men than women are concerned about poor political *leadership*—22 *per cent against* 12 per cent. Reading between the lines, Mrs Thatcher's policies seem to come out rather well. But more British women than men are concerned about the *threat* of war — *30* per cent against 22 per cent.

Make of it what you will. It is probably the best guide available until international polling is further refined and there are more bases for comparison.

Copies of the poll may be obtained, for a fee, from the Atlantic Institute for International Affairs, 120, Rue de Longchamp, 75116 Paris.

Question: Which of the following are your greatest concerns for yourself and your country today?

	France	Germany	UK	Norway	Spain	Holland	Italy	U.S.	Japan
The threat of war	34	16	26	31	48	33	44	25	36
The energy crisis	15	10	6	3	16	9	23	18	27
Inflation	48	21	22	12	36	12	43	35	33
Inadequate defence	6	4	8	4	5	7	6	12	10
Unemployment	70	82	67	63	87	74	67	52	23
Social injustice	24	28	13	11	28	19	27	22	24
Crime	32	33	37	12	22	53	61	41	36
Nuclear weapons	19	42	32	42	29	47	33	20	28
Excessive government spending	21	34	10	8	9	25	21	33	25
Poor political leadership	14	14	17	6	5	24	27	36	20
Other or no answer/opinion	1	4	1	1	2	3	3	3	9

The percentages do not add up to 100 because people could name more than one cause for concern.

Letters to the Editor

Ravenscraig and U.S. Steel—a give away

From Dr Jeremy Bray

Sir,—Piecing together statements made by Mr Ian MacGregor to Ravenscraig shop stewards, and by Mr David Roderick, *chairman* of U.S. Steel, to the U.S. Congress and to his shareholders, it appears that they are proposing that British Steel Corporation should invest £100m cash in a joint venture. This and the first £256m in profits would be used to refurbish the Fairless works and other out-dated U.S. steel plants up to standards now achieved at Ravenscraig. During a *transitional period* of five or 10 years the Ravenscraig and Gartcosh strip mills would be closed, and Ravenscraig would supply higher grade continuous cast slabs to U.S. Steel than would be *available in equivalent* tonnages to British Steel's customers. At the end of the transition, Ravenscraig steelmaking, bereft of its finishing mills, would itself be closed.

In testimony to Congress, Mr Roderick estimated the cost of rebuilding Fairless works as £1.2bn, which is, therefore, a measure of the replacement cost of Ravenscraig. The net effect of this deal would be to transfer a modern integrated steelworks across the Atlantic. BSC would gain a share in a U.S. asset for which it paid something over £200m in cash and profits retained, and lose an asset worth £1.2bn at Ravenscraig. No wonder Mr Roderick is enthusiastic. It is a give away.

The proposal is based on Mr MacGregor's extreme and unfounded pessimism about the prospect for British manufacturing industry. The implication of his estimates for steel demand in 1985-86 is that British industrial output will then be lower than in the trough at the bottom of the recession in 1982. On January 26 Mr Patrick Jenkin said to the Industry and Trade Select Committee: "On the early closure of Ravenscraig BSC estimated that at present levels of steel demand they would save about £100m a year, but if their output of steel increased significantly from present levels the extra costs of keeping all five steel plants open would be very much lower."

BSC steel output in fact increased by 46 per cent in the first quarter of 1982 on the previous quarter, and has increased further since. Orders for strip product deliveries to consumers and stockholders in the second quarter up to June, now stand at 77,000 tonnes (or an annual rate of 400,000 tonnes of liquid steel equivalent) above the annual *operating* plan revised in the first quarter. Ravenscraig, Port Talbot and Llanwern have now been asked to produce at their full capacity up to August, contributing *fully to the prospect* that BSC will be back to breaking even in this financial year, with economic recovery scarcely under way.

It was to explore the medium term prospect that I suggested to Strathclyde Regional Council that it should commission the Cambridge Econometrics inter-industry demand study that should have been commissioned by BSC and the Department of Industry. I insisted that it should be written up with total integrity and impartiality by the council, as it readily agreed to do.

I knew it would be sloppily read by some. But I had not expected your leader writer (May 9) to ignore it, after the report you carried of it on May 6. Nor did I expect a person like Mr Safford, director of the British Iron and Steel Consumers' Council (May 10) to present the savage deflation of a simulation with a £15bn current balance of payments surplus, a negative PSBR, and no fall in unemployment, as the limit of what can be expected in the way of steel demand! Nor would I expect him to ignore all questions of quality and product mix in the order load.

There is a case for supplying whatever slabs can be sold to the U.S. from all five major works, as is in fact intended, to take advantage of this fleeting market, while UK steel demand recovers. But it has nothing to do with closing the strip mills in BSC's best equipped works.

Jeremy Bray.
29A Colquhoun Street, Helensburgh, Dunbartonshire.

Arithmetic about the Maestro

From the Director, Sales and Marketing, Austin Rover Group

Sir,—Mr Fisher's letter (May 12) contained some interesting arithmetic about BL and as a consequence placed a hefty price tag on the cost of an Austin Maestro. The taxpayer has certainly been patient and generous towards the last remaining UK owned volume motor manufacturer and we believe we are *now repaying* that patience with new models, like Maestro, which will help the recovery of the industry as a whole. It is a fact that taxpayers throughout Europe, too, are supporting their own motor industries in various direct and indirect ways.

To suggest that part of the price of support has been higher UK car prices is not borne out by the facts. The major factor in price differentials between UK and Europe has been the relative movements of European currencies. At the moment European currencies are rising at about double the rate of UK prices, while our own prices have risen at below UK inflation for two years.

Incidentally there is a Rover diesel in the Austin Rover group range and if Mr Fisher is interested I'd be delighted to arrange a demonstration drive!

Trevor H. Taylor,
Austin Rover Group,
Canley, Coventry.

Insider dealing and the code

From Mr J. Mason

Sir,—I am concerned to note that in certain circumstances it is in order for a director to deal in shares of his own company before results are announced, but when he is probably aware of what they will be.

My attention was drawn to this recently when I noticed that a director of a quoted company purchased shares in his company within days of the financial year end. I considered this to be insider dealing, but on referring to the "Yellow Book" (Admission of securities to listing — issued by authority of the Stock Exchange) I find it does not contravene the code. Requirements of the code are: to issue reports and accounts within six months of the period end, and not to deal in the shares during the two months preceding the preliminary announcement of the company's results.

The code seems to favour the inefficient. The directors of those companies that are slow in announcing results have more *opportunity* to act on their "insider" knowledge — the fact that results are not announced does not necessarily mean that the directors do not have a fair idea of what they will be.

I would advocate a change in the code to the following: to issue reports and accounts within four months of the period end and dealings should not normally *take* place *between* one month before the end of a financial period and the date of the announcement.

J. C. Mason.
8, St Leonards Road, Chesham Bois, Bucks.

A practical plan for currencies

From the Prime Minister of New Zealand

Sir,—I have read, as a visitor, "A practical plan for currencies" (*Lombard, May 12*). As one of the more senior, and therefore more frustrated, governors of the International Monetary Fund I say "hear hear." When the newspapers start getting it right there is still hope.

Robert Muldoon.
Wellington New Zealand.

Settlements on the West Bank

From Mr Z. Shoval

Sir, — Further to your editorial, "Syria's role in Lebanon" (May 10), may I point out that, contrary to your statement on the subject, the late President Sadat never claimed that he had been misled or that he had been promised by the Israeli delegation at Camp David that there would be a "freeze" on new settlements in the "West Bank"—and he himself confirmed this at his Press conference after the conclusion of the talks.

I cannot say, of course, what ex-President Carter may have given the Egyptian leader to understand—but I can say that in a briefing which I received from the late Moshe Dayan immediately upon returning to Washington from Camp David, the latter told me that the Israeli delegation (or rather Mr Begin himself) had specifically agreed only to a "freeze" for the duration of three months. I believe this is borne out also by the records. The above "freeze" was, in fact, strictly adhered to.

Zalman Shoval.
78, Sharet Street, Tel-Aviv, Israel.

Preventing misuse of credit cards

From Mrs M. Rosenberg

Sir,—My simple advice to prevent misuse of credit-cards on loss, theft or forgery: at the time of presentation request the presenter to *state his/her* birthdate. This should tally with the records of the bank or other issuers.

M. Rosenberg.
17, Yew Tree Court, Bridge Lane, NW11

FINANCIAL TIMES

Monday May 16 1983

MITTERRAND ANXIOUS TO CORRECT GROWING TRADE DEFICIT WITH GERMANY

Paris seeks new ties with Bonn

BY DAVID MARSH IN PARIS

FRANCE will be trying to win support from West Germany for plans to boost economic growth and stabilise exchange rates during the two-day summit meeting between the two countries which starts in Paris today.

The French Government, facing economic stagnation at home this year, is particularly keen to see recovery in its most important trading partner to reduce the still mounting trade deficit with Germany.

The growing trade imbalance – FFr 38bn last year, with a further French deficit of FFr 10.4bn in the first quarter of 1983 – will be the main grievance at the meeting, the latest in a 20-year series of six-monthly talks.

President François Mitterrand and Herr Helmut Kohl, the German Chancellor, are expected to have several hours of conversations. With about 10 ministers from each side present, the talks will also help to explore common ground on economic and strategic issues before the seven-nation summit in Williamsburg this month and the European heads of government meeting in June.

The two countries already show remarkable convergence on stationing strategic nuclear weapons in Europe. As emphasised in President Mitterrand's address to the Bundestag in January, France is moving in its defence policy away from Gaullist isolation towards greater collaboration with Germany.

Less unanimity is likely over the president's call last week for a new Bretton Woods system of stabilised exchange rates.

Count Otto Lambsdorff, the German Economics Minister, voiced scepticism about the idea last week. He said that for the president to place the scheme on the agenda of the Williamsburg summit seemed to be emphasising the importance of the gathering. That seemed at odds with the designs of M Jacques Delors, who with his call for another meeting of the Organisation for Economic Co-operation and Development (OECD) for the autumn appeared to be downplaying the role of Williamsburg.

The issue of protectionism, existing and threatened, is certain to be present at the Franco-German talks. French companies claim that German technical norms form an important barrier to exports, while the Bonn government fears French retaliation to the growing trade deficit.

Mme Edith Cresson, the French Foreign Trade Minister, last week hinted at direct action. She told the OECD meeting in Paris that France could not accept structural disequilibrium in trade with "certain" countries. "Limited, negotiated and temporary" moves to reduce such imbalances – instancing the recent restrictions on Japanese video-recorder imports – might sometimes be useful to curb "disorder" in world trade, she said.

Apart from general economic issues, the two countries will also be exploring a range of possible joint industrial projects. They include production of an anti-tank helicopter, the plan for a new 150-seater Airbus, the A320; development of a French-style high-speed train in Germany; and space, telecommunications and nuclear energy projects.

Thatcher concern in opinion poll lead

By John Hunt in London

THE FIRST full week of campaigning in the British general election begins today, the main question being which party would benefit from any erosion of the Conservatives' large lead in the opinion polls. That averages nearly 16 per cent.

Mr Michael Foot, leader of the Labour Party, the main opposition to the Conservative Government, confidently predicted yesterday that the Tory lead would collapse as the campaign got under way for the election on June 9.

He admitted that the polls were "not very agreeable" but argued that the "spirit of Darlington" – a recent by-election where moderate candidate pulled Labour ahead – would steadily increase Labour's share of the vote.

The Conservatives are genuinely worried that their big lead will encourage complacency and damage their chances in marginal parliamentary seats. Privately, they concede that the lead is bound to shrink during the campaign.

Their fear is that, as their support declines, the votes could go to the Social Democrat/Liberal Alliance rather than to Labour, whose showing has been remarkably poor for an official opposition.

Private soundings that the Social Democrats have commissioned from Gallup and Audience Selection suggest that there may be grounds for these fears.

They show that the Alliance is predominantly the second choice for Conservative and Labour voters. The Alliance, formed since the last general election, had 29 SDP seats and 13 Liberal in the last 635-seat Parliament, which was dissolved on Friday. The Conservatives had 334 MPs and Labour 239.

The Social Democrat hope is that many voters will come over to the Alliance as they are frightened off by extremism in the Labour party and right-wing policies of the Conservatives.

Their soundings also show that the issues in the Alliance programme – moderate reflation, industrial democracy, trade-union reform – are extremely popular with the electorate. The difficulty is that they have not yet been connected with the Alliance in the public mind.

The Alliance is confident that it will win votes when Mr David Steel, the Liberal leader, appears in their election broadcasts. In a poll conducted by Gallup for the Sunday Telegraph, a remarkable 28 per cent said that their support for him was increased by his television appearances. This was well ahead of any other figure, including Mr Roy Jenkins, the SDP leader.

There was little comfort for the Alliance, however, in a Harris poll for London Weekend Television yesterday. This suggested that the Alliance was losing ground to Labour.

The poll also showed that the Conservative lead in marginal constituencies is much smaller than that shown in national polls.

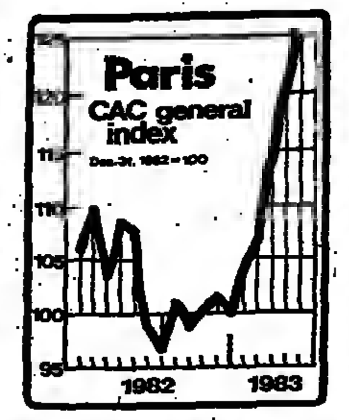
It indicated that their lead over Labour was only 8 per cent in marginal seats that could determine the outcome of the election.

Mr Foot, on BBC's World This Weekend yesterday, made clear that Labour would concentrate on unemployment as the main domestic issue. He predicted that it could rise to 5m under another Conservative Government.

The impact of Mrs Thatcher's economic policies, Page 16; election round-up, Page 8

THE LEX COLUMN

Fair sets the wind for the bourse



The stream of poor results from French industry's household names has done little to dampen enthusiasm on the Paris Bourse. Since January, the CAC general index has shot up by 30 per cent to its present level of just over 125. Even some of the more vulnerable stocks have been swept up in the general euphoria: Thomson CSF, which has been patently struggling with its radiography and telecommunications divisions, had moved up exactly in line with the market to FFr 187 before announcing its whopping FFr 2.2bn loss for 1982.

Many of the companies reporting are admittedly no longer quoted. Nationalisation has removed PUK (losses of FFr 3bn), Rhône-Poulenc (-FFr 340m), the Thomson Brandt parent (-Thomson CSF (-FFr 2.2bn), and Cii Honeywell Bull (-FFr 1.3bn). The new managements of these companies have little incitement to boast of profits at a time when they are presenting the begging bowl to finance the government's ambitious reorganisation plans. Indeed, many are complaining about undercapitalisation and have thrown extra provisions into their 1982 figures.

Nevertheless, these groups are supposed to represent the commanding heights of the French economy; and both Peugeot and Michelin, the remaining two private companies that are of similar size, are in an identical plight – they ran up losses of around FFr 2.1bn and FFr 4bn respectively last year.

The bourse has chosen to ignore these portents of gloom from the smokestack industries precisely because they come from that part of the economy: Michelin, for example, is just about as near as it is possible for a French investor to get to a U.S. recovery stock – and the share price has consequently risen by almost 20 per cent. Moreover, away from the heavy-industry disaster areas, many of the medium-size, faster growing businesses of the last decade have shown remarkable resilience to the bitterly contested on-costs of the 39-hour week and the fifth week paid holiday. BSN-Gervais Danone emerged last year with a 29 per cent increase in net profits at FFr 574m; others, like L'Oréal, Moët-Hennessey and Carrefour similarly seem to be weathering the storm.

These companies are all in areas such as pharmaceuticals or consumer products that have proved fashionable across the spread of world stock markets this year. France has attracted its share of overseas funds as other markets reached new heights and international investors took account of the government's recent austerity measures. At the same time, there has been no shortage of liquidity at home. The flow of domestic funds into the so-called Monory Sicav unit trusts has been strong this years, and money which formerly might have gone overseas (now restricted by exchange controls), or into property or gold (no longer bought anonymously), is being channelled towards the bourse.

A lot of this is being soaked up by the expanding bond market, which grew from FFr 119bn in 1981 to FFr 140bn last year and is expected to reach FFr 180bn in 1983. But on the equity market it is hardly surprising that the combination of reduced investment opportunities produced by wholesale nationalisation and exceptionally strong liquidity has bid up some stocks to extravagant levels: L'Oréal has risen by 72 per cent since the beginning of this year.

These are the ideal circumstances, of course, for the expansion of the equity market which the government has been looking for, and which has recently led to the development of the over-the-counter market and a new form of cumulative preference non-voting shares aimed at family companies. But these are long-term initiatives and, as such, are unlikely to make much immediate impact on the present illiquidity pressures.

ED 32

The treatment of pensions has long been a problem for the accountancy profession. Juggling with contributions has often been used as a profits-smoothing device by companies – such as oil companies and banks in the mid-1970s which wanted to depress embarrassingly high earnings. More recently, the appearance of a surplus in the fund could be a very useful earnings booster for a threatened takeover victim. In the past, however, bidders have often found that their nice new subsidiary contained a pension scheme that was a bottomless pit.

The Accounting Standards Committee's new exposure draft ED 32 does not exactly try to blow the whistle on all of this: it does not even require disclosure of key actuarial assumptions, let alone attempt to lay down how pension costs should be measured.

However, given that the starting point is the virtual non-existence of pensions information in the accounts of UK companies, the limited disclosure suggested in ED 32 is a worthwhile step forward. It will allow users of accounts to start asking some pertinent questions, even if they do not necessarily get any answers. But there is a lot further to go than this.

Kanu ruling council to discuss Moi plot claim

By Michael Holman in Nairobi

KENYA's political turmoil over President Daniel arap Moi's allegations of e plot against his government is expected to come to a head tomorrow at a specially convened meeting of the governing council of the ruling Kenya African National Union (Kanu).

The council, which includes MPs and Kanu officials, meets rarely. The last occasion was a year ago, when it authorised the creation of a one-party state.

President Moi's allegations, in which he seemed to hint at British involvement, included a reference to "a certain person" behind the plot.

Sir Leonard Allinson, the British High Commissioner, met the President last Friday and is thought to have made clear thet Britain was not involved in any anti-government activity. But there has been intense speculation in the local press about the identity of the alleged plotter, said by one Kanu official to be a cabinet member.

Not a day has gone by since President Moi's allegations a week ago without the three daily papers running front-page speculation on the identity of the traitor, variously called a hyena and a snake, and pledges of loyalty to Mr Moi from ministers, MPs and party officials.

The most senior minister who has yet to comment is Mr Charles Njonjo, former Attorney-General and now Minister of Constitutional Affairs. He has been out of the country but returned to Nairobi yesterday morning. Mr Njonjo and the Vice-President, Mr Mwai Kibaki, are the two most powerful politicians after the President and their role will be crucial in the coming days.

Observers here feel that Mr Moi has set in train a process that can end only when he provides further details and names the guilty party.

"It is the moral duty of the government," a local paper said in an editorial at the weekend, "to provide the people with clear and accurate answers now, before that dangerous monster known as rumour-mongering takes a firmer grip."

Emotions are being whipped up to an extraordinary pitch.

Mr Moi himself has not referred to the plot since his original speech.

Banks near accord on debt plan for Explosivos Rio Tinto

BY DAVID WHITE IN MADRID

AN END is in sight to the long-running negotiations on almost $1bn of foreign and local currency debt held by the troubled Spanish chemical group, Union Explosivos Rio Tinto (ERT).

A steering committee representing about 125 Spanish and foreign banks has accepted a new plan put forward by the company last week as "an acceptable alternative." Full details of the plan have not yet been officially released.

ERT has been badly hit by diversification into unprofitable areas, and by the peseta's sharp decline against the dollar, which has doubled the value of foreign debt in local-currency terms.

An effective moratorium on repayment of the company's debts has been in force since last October, and in March the banks threw out a debt repayment plan drawn up by ERT.

The new plan, like the first, is based on a concentration of ERT's operations around its core activities of fertilisers, refining and explosives.

The main differences in the new plan are:

- A partial repayment schedule in five years instead of seven;
- Improved interest rates, for creditor banks;
- Negotiations on the problem of the exchange risk on foreign-currency loans, which the company had originally proposed the banks themselves should carry.

The steering committee's approval is made conditional on successful resolution of this problem with the Spanish authorities. The Government has so far held its cards close to its chest as regards aid for the group, making clear it wants ERT to settle its score with its creditors first.

Representatives of several Spanish and U.S. banks have been working closely with ERT on the new plan, which has to be formally approved by creditors. It includes figures showing a total net loss of Pta 41.7bn ($307m) for last year – 24 per cent of sales – and operating losses in the first quarter of this year of Pta 4.4bn.

The plan involves a five-year schedule for repaying somewhat more than Pta 50bn of the total Pta 125.5bn bank debt, the bulk of which would normally have been due this year. Of this, Pta 25bn would come from the sale of assets over the next three years.

The interest rates, starting at 7 per cent for this year, will be slightly more than half of what would normally have been due, rising to the full rate in the last year, 1987. In exchange for the difference, creditors would receive redeemable preference shares.

As an alternative formula, creditors would be able to opt to write down their outstanding loans to 70 per cent, receiving full interest and obtaining ordinary shares of the company to make up what they do not get in principal repayments.

The plan is based on the calculation that ERT's core activities will obtain sales of Pta 175bn this year, slightly more than total group sales in 1982, with turnover of the "non-basic" – plastics, pharmaceuticals and property – put at Pta 30bn. Sales by the core companies in 1987 are put at Pta 290bn.

Some 500 jobs are due to be cut at the core companies, currently employing 6,000.

The last stage of negotiations remains delicate, since any one creditor could still pull the rug out from underneath the agreement and force the group to declare suspension of payments, or go into temporary receivership, thereby stretching out the debt settlement issue even further.

The plan also risks meeting strong opposition from ERT unions, who want great leeway for investment in the group and are suspicious of what they perceive as overgenerous treatment to the banks.

A meeting is being called in London on Wednesday by Grindlays Bank, which represents British banks on the steering committee.

UK chemical companies may decline for another 10 years

BY CARLA RAPOPORT IN LONDON

BRITAIN'S petrochemical, fertiliser and inorganic chemical industries face the prospect of permanent decline over the next decade.

The contraction of these sectors is likely to push the entire £16bn ($25bn) UK chemical industry into reverse, offsetting the more buoyant prospects for the UK pharmaceutical and speciality organic chemical sectors.

The result will be fewer jobs and declining output and trade balance, according to a new report prepared for the Chemicals Economic Development Committee following several months of research. The Chemicals EDC, comprising government, labour and chemical industry representatives, reports to Britain's National Economic Development Council.

The hard-pressed chemical sector has already cut back its level of employment from 430,000 jobs in the mid-1970s to about 377,000 today.

In petrochemicals, which accounts for nearly a third of Britain's annual chemical sales, the report predicts that growth in European demand will continue to diminish over the next 10 years. That will continue to aggravate the already severe overcapacity throughout the European industry.

Despite commendable efforts by UK petrochemical companies to close uncompetitive plants and reduce costs, the report says that much more rationalisation in Europe is necessary.

"There is a need for EEC-wide action: for the UK to act in isolstion will seriously weaken both the chances of an effective solution and the prospects for the UK industry," the study argues.

That stance will add more fuel to the discussions planned for May 30 in Brussels between the chief executives of Europe's leading chemical companies. The meeting was called after the completion of an independent, industry-wide report on the European petrochemical industry, which apparently makes a strong case for further rationalisation.

Thatcher to resolve anti-radar missile row

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT, IN LONDON

MRS Margaret Thatcher, the UK Prime Minister, is to decide this week whether Britain should buy a new British missile which is still on the drawing board in preference to an existing U.S. weapon favoured by the Royal Air Force (RAF).

Mrs Thatcher has been called on to resolve what is being described in Whitehall as a big difference of opinion between the Ministry of Defence (MoD) and the Treasury over a £200m to £300m ($312m to $468m) contract for the new missiles.

It is understood that Mr Michael Heseltine, the Defence Secretary, decided last week that the RAF should buy the air-launched anti-radar missile – Alarm, for short – which is being developed by the British Aerospace Dynamics Group (BAe).

His decision came after months of a bitter contest between BAe and a partnership of U.S. Texas Instruments and Lucas Aerospace to provide the RAF with new missiles capable of suppressing the Warsaw Pact's increasingly sophisticated radar-based air defences.

However, it is understood that the Treasury has told the MoD it thinks that Texas Instruments' Harm – for High-speed Anti-Radar Missile – could provide a better bargain for the RAF

At the heart of the controversy over the new missiles, officials say, is the question of whether Britain should develop or retain key defence technologies within the UK. It is said that the vital redar-seeking technology would not be transferred to Britain if the U.S. Harm system were bought for the RAF.

The proposals for the rival weapons systems were submitted to the MoD late last year.

Fitch board seeks mandate to decide bids

By William Dawkins in London

AFTER A weekend of hectic bid activity, Fitch Lovell, the UK food manufacturer and retailer, has asked shareholders to allow the board to use its discretion at an extraordinary general meeting on Friday in deciding on rival offers for the group's Key Markets supermarket chain.

Linfood Holdings, which takes in the Gateway, Dee and Carrefour food retailing operations, bid £37.8m ($59m) for the chain last week in an effort to oust Safeway Food Stores, which agreed last month to buy Key Markets for £34.8m, subject to Fitch shareholders' approval. Safeway, the British arm of the U.S. supermarket chain, then matched Linfood's offer on Saturday, after which Linfood announced that it would raise its bid to £40.8m today.

Linfood tried to buy the whole of the Fitch group for about £75m last autumn, but its offer lapsed pending an investigation by the Monopolies and Mergers Commission, which gave it clearance last week.

Other UK company news, Page 21

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	25	77	Dubrovnik	S	27	81	Malaga	F	20	68	Salzburg	F	24	75
Akrotiri	T	22	72	Faro	F	18	64	Malta	S	25	77	Seoul	C	24	75
Algiers	S	23	73	Florence	S	30	86	Manila	S	37	99	Singapore	C	33	91
Amsterdam	C	15	59	Frankfurt	C	17	63	Miami	C	25	78	Stockholm	F	17	63
Athens	S	27	81	Funchal	—	—	—	Milan	C	15	59	Strasbourg	S	16	61
Bahrain	S	40	104	Geneva	C	16	61	Moscow	F	23	73	Sydney	C	21	70
Bangkok	S	36	97	Gibraltar	R	16	61	Munich	F	20	68	Taipei	R	29	84
Barcelona	C	17	63	Guernsey	F	12	54	Nairobi	—	—	—	Tangier	—	—	—
Beirut	F	21	70	Helsinki	S	17	63	Naples	S	27	81	Tehran	—	—	—
Belgrade	S	31	88	H. Kong	R	29	84	New Delhi	S	36	97	Tel Aviv	C	20	68
Berlin	C	19	66	Innsbruck	F	20	68	New York	R	21	70	Tenerife	C	21	70
Biarritz	F	18	64	Inverness	R	14	57	Nice	C	18	64	Tokyo	S	23	73
Blackpool	C	15	57	Istanbul	—	—	—	Oporto	F	15	59	Toronto	C	19	66
Bordeaux	F	17	63	Jersey	F	13	55	Oslo	C	13	55	Tunis	S	27	81
Brussels	C	15	59	Jo'burg	C	16	61	Paris	C	14	57	Valencia	F	23	73
Budapest	S	30	86	Las Palmas	F	22	72	Prague	—	—	—	Venice	S	24	75
B. Aires	S	21	68	Lima	S	29	84	Reykjavik	R	8	46	Vienna	S	28	82
Cairo	S	30	86	Lisbon	R	13	55	Rio de J'o	C	30	86	Warsaw	S	25	77
Cape Town	—	—	—	Locarno	R	14	57	Rome	S	27	81	Zurich	C	17	63
Caracas	C	18	64	London	R	9	48								
Casablanca	C	19	66	Los Angeles	C	24	75								
Copenhagen	F	15	59	Luxembourg	F	16	61								
Corfu	S	29	84	Madrid	F	15	59								
Dublin	F	11	52	Majorca	C	22	72								

Readings at mid-day yesterday.

C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Brazil rescue package

Continued from Page 1

He said that would pump at least $2bn into the rescue programme and help to finance Brazil's growing exports.

- The IMF will be asked temporarily to waive certain conditions related to its economic adjustments programme for Brazil. The idea is to relax the IMF's stringent terms so the country can return to its initial targets by the end of the year. Brazil has already exceeded its agreed inflation limit of around 90 per cent. It is now running at between 120 and 150 per cent.
- The BIS may be asked to allow Brazil to defer its May repayments of more than $400m on the BIS bridging loan. This would allow Brazil to make use of extra liquidity, urgently needed until its trade balance improves and the benefits of this improvement are felt.
- Those banks which are unwilling to restore interbank credits will be told they may do so directly to the Brazilian central bank instead of to Brazilian commercial banks.

"If certain banks have a psychological barrier and have not restored interbank lines, then we hope that the extra security of channelling these lines to the central bank will persuade them," one U.S. banker involved in the Brazilian rescue package explained.

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by G.T.S. Damer, Frankfurt/Main, A.V. Hare, R.A.F. McClean, M.C. Gorman, B.A. Lawrence, D.E.P. Palmer, London, as members of the Board of Directors. Printer: Frankfurter Societäts-Druckerei GmbH, Frankfurt/Main. Responsible editor: C. E. P. Smith, Frankfurt/Main.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday May 16 1983

Brazilian Central Bank chief bids to save loan deal

BY MARGARET HUGHES

CRUCIAL TALKS are underway in New York and Washington to preserve the multi-billion dollar rescue package negotiated for Brazil in February. Sr Carlos Langoni, governor of the Central Bank, spent the weekend talking to some of the main creditor banks and is due in Washington today for discussions with the IMF. He will then return to New York for further negotiations with the commercial banks.

Sr Langoni is expected to request a relaxation of IMF targets which Brazil has failed to meet so that it can draw down the second tranche of its $4.9bn IMF standby credit due at the beginning of June.

Brazil has failed to meet the targets set by the IMF for its public sector deficit and for inflation. In the first quarter the deficit hit Cr 4,000bn ($8.6bn) against e target of Cr 2,800bn, while inflation soared past the 90 per cent ceiling to between 120 and 150 per cent.

Sr Langoni may also be seeking e delay on the May repayment of the second $400m tranche of the $1.2bn loan which the Bank for International Settlements (BIS) granted in December. Brazil earlier attempted to get repayment delayed by three mooths, extending the final maturity to the spring of 1984 instead of the end of this year.

But it met strong resistance from BIS central bankers and subsequently made the first repayment. It remains to be seen whether Brazil finds them more receptive this time.

Sr Langoni's U.S. visit comes after a further meeting of the 18-bank liaison committee failed yet again to resolve the interbank lines shortfall. A suggestion that would allow banks to increase their trade credits to Brazil instead was rejected by those such as the major U.S. banks, the Japanese, British and Dutch, which have already agreed to increase their lines on a pro rata basis.

For the time being at least, efforts are concentrated on preserving the existing rescue package rather than requesting any new loans, although Brazil's liquidity problems make this an option which may have to be implemented earlier than expected.

Meanwhile, U.S. Treasury Secretary Mr Donald Regan, who said last week he did not think Brazil would default on its international debt, has rather confused the Chilean rescue package by saying the U.S. had not provided a bridging loan to Chile either directly or through the BIS. But the BIS last week approved e $350m bridging loan to Chile and the U.S. had been expected either to participate in this loan or independently provide $100m. Another $180m has been put up by 12 commercial banks.

The IMF's recommended devaluation of the Venezuelan bolivar looks like being resisted by the present government. Finance Minister Sr Arturo Sosa says he will not implement any IMF programme which might have socially harmful consequences. The main creditor banks will be meeting Venezuelan officials in New York this week.

Argentina has gone some way to bringing its interest payment oo public sector debt up to date by beginning its April payments. The Central Bank has also indicated that it will shortly announce new terms for refinancing its $4.6bn short term private sector debt. This would remove one of the obstacles to the new $1.5bn medium term loan from commercial banks, but others remain.

Several banks are adamant that Argentina's bankruptcy legislation must be changed. This is because under present law the $150m foreign debts owed by the paper manufacturer, Celulosa Argentina, are subordinate to debts owed to domestic banks. Foreign banks fear they may have to wait for 15 years before being repaid.

EUROBONDS

BY MARY ANN SIEGHART

Warrant fever is arrested

THE EURODOLLAR bond market's recent bout of warrant fever subsided last week. That is not to say that no more warrant issues will be launched, but we are unlikely to see 40 or 50 per cent premiums over the share price.

The market witnessed dramatic falls last week in the pre-market prices of many recent warrant issues. Deutsche Bank's $100m, 6¼ per cent 1991 issue plunged from 120 to 104 in one day. But the performance of ICI's $100m, seven-year, 9¾ per cent deal disturbed the market even more.

From its par price of 123, the bond slipped a couple of points each day last week to close on Friday at about 111. The main problem lay with the warrants – the stripped bond was still tradng quite steadily at 98½.

Quite apart from lead manager Goldman Sachs the co-managers and underwriters stand to lose quite a lot of money unless ICI's share price picks op substantially. Moreover, the houses participating in the deal learned on Friday that they are to receive their full allotments of the bonds. They have yet to hear what proportion of Goldman's stabilisation losses – if there are any – they have to bear.

Some houses have complained to Goldman, though as Peter Goldschmidt, director of the bank, points out: "The underwriters accepted the underwriting in full knowledge of what the terms were. They had every opportunity not to accept."

ICI admitted at the time that the warrants had been added at the last-minute to appeal to warrant-hungry investors. "In retrospect," says Goldschmidt, "we would have preferred to do it without the warrants. Then it would have been more of a success."

More deals with warrants are expected next week, but the pricing on them is likely to be more generous, with premiums about 15-20 per cent of the share prices. (Since ICI's share price has fallen, the warrant premium still works out at over 40 per ceot, which suggests that the warrant price may have further to fall.)

The Eurodollar market still seems to be bullish at heart, though. Most people expect interest rates to go down rather than up, but few are predicting anything dramatic either way. Both the six-month Eurodollar rate and the U.S. Fed Funds rate are edging downwards. Recently, discount rate cuts have tended to follow, rather than lead, falls in the Fed Funds rate, but several U.S. observers have suggested that Fed Funds would have to hover around the 6 per cent mark for some time before the discount rate was reduced from 8½ per cent.

As far as borrowers are concerned, this bullish sentiment is not likely to lead to e "boom and bust" flood of new issues in the next few weeks. On a seven- or 10-year maturity, e good U.S. corporate name would probably find only a marginal cost difference between the Eurodollar and the domestic U.S. markets. For longer maturities, on the other hand, the domestic market has cheapened considerably over the last month or two. Here, the Eurodollar market cannot compete since its straight bonds are rarely for more than 10 years.

First Boston has estimated that the average spread over 30-year Treasuries that a double – A rated industrial company would have to pay for a bond of the same maturity in the U.S. market is only 51 basis points. During the March to May quarter, by comparison, the average spread was 107 basis points, with a high of 168 and a low of 48. This has led to a rash of borrowing over long maturities.

New issue activity last week was lighter than the week before. Thursday was a public holiday on the continent and Friday started with prices marked down on the back of a weak New York market. However, New York picked up during the afternooo and the Eurodollar sector followed suit.

Monday will see a new $20m convertible issue from Amedco, a U.S. manufacturer of health care products. Led by Morgan Grenfell and Shearson American Express, the 15-year bond will have a 7½ per cent coupon, an a conversion premium of about 12½ per cent at par.

Life returns to the sterling markets

BY OUR EUROMARKETS STAFF

THE BULLDOG and Eurosterling markets have come back to life after a two-month period in which no new issues were launched. Since the beginning of April, five borrowers have come to the markets, raising nearly £300m.

Two factors have proved important in this renaissance – the the recovery of the pound and a decline in sterling interest rates.

Both bulldog and Eurosterling bonds tend to be priced at a small margin over gilt-edged stock with similar maturities. So a fall in gilt yields will attract borrowers to the market. The yield on a benchmark loog gilt has fallen from 11.03 per cent at the end of March to 10.80 per cent now. When New Zealand launched its £100m bulldog bond three weeks ago – the first in the market since January – the yield was only 10.65 per cent.

At the same time, sterling has recovered from a low of $1.45 at the end of March to around $1.56.

Currency swaps into sterling are becoming more popular, too. Three weeks ago, S G Warburg and Soditic in Switzerland broke new ground by arranging the first currency and interest rate swap betweeo sterling and Swiss francs. The vehicle was a SwFr 100m private placement for Finance for Industry (FFI) and the counterparty was Enel, the Italian electricity producer.

S G Warburg is thought to have arranged another swap into sterling last week – this time from dollars. Creditanstalt-Bankverein launched a $50m fixed-rate Eurodollar bond which it then, apparently, swapped for floating-rate sterling finance.

More innovation is likely in the sterling markets, but probably not until after the UK electioo. Since most new bond techniques involve options for the future, like warrants, they would be e risky venture before the election because of the possibility of e new government reintroducing exchange cootrols.

Secondary markets on the continent were fairly quiet all week, with prices closing unchanged.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Secom §‡	40	1998	15	5	100	Nomura Intl.	5.000
Quebec Prov. ‡	50	1995	12	10	98.48	Nomura Secs.	11.502
BBL †‡	100	1995	12	5Ø	100	CSFB	–
Manitoba Prov. ‡	100	1990	7	10½	100	Wood Gundy	10.500
BOC ‡	100	1993	10	10¾	100	Nomura Intl.	10.750
Commerzbank ¶‡	100	1988	5	7	100	Commerzbank	7.000
Credit Agricole ¶§‡	250	1995	12	5¼Ø	100	Kidder Peabody, Merrill Lynch, Salomon Bros.	–
Creditanstalt-Bankv. ‡	50	1990	5	10¾	100	SG Warburg, EBC, Manufrs. Hanover	10.750
St. Western Fin. Corp. §	50	1993	15	*	100	CSFB	*
Honda Motor §	100	1998	15	*	100	Nikko Secs., Nomura Intl.	5.250
Amedco §	20	1998	15	*	100	Morgan Grenfell, Shearson/Amex	7.500
CANADIAN DOLLARS							
BNP ‡	60	1993	10	12	100	BNP, Wood Gundy, Orion Royal Bank	12.000
D-MARKS							
Spanish Tele. ‡	100	1993	10	8¼	100	Dresdner Bank	8.250
Asian Devt. Bank **‡	100	1993	10	8¼	100	Bay. Hypotheken	8.250
SATS	100	1990	7	8¼	*	BHF-Bank	*
SWISS FRANCS							
Tsumura Juntendo **§‡	50	1988	–	3¾	100	SBC	3.750
Tanabe Seiyaku **§‡	50	1988	–	3⅝	100	UBS	3.625
San-ai Oil Co. **‡	20	1988	–	6⅛	100	CS	6.125
Honda Motor §	100	1993	–	3⅝	100	UBS	3.625
Honda Motor **§	100	1988	–	3⅝	100	UBS	3.625
Meisei Ind. Co. **§	30	1988	–	3¾	100	Banca del Gottardo	*
IADB	100	1993	–	*	*	CS	6.125
GUILDERS							
Asian Devt. Bank	150	1993	10	8¼	*	ABN, Amro Bank	*
DANISH KRONER							
Nordic Invst. Bank ‡	100	1993	6½	7	100	Den Danske Bk., Handelsbank, Privatbanken	7.000
ECUs							
European Banking Co. ‡	40	1989	6	11½	100	Paribas, Soc. Gen. de Bque., EBC, Société Générale	11.500
YEN							
OKB ‡	20bn	1993	5	8	100	Nomura Secs.	8.000

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. Ø Minimum. § Convertible. ¶ With warrants. †† Registered with U.S. Securities and Exchange Commission. Note: Yields are calculated on AIBD basis.

U.S. BONDS

Unexpected jump in M1 dashes hopes of lower rates

THE U.S. credit markets drifted lower for most of last week and the announcement of an unexpectedly sharp jump in the M1 weekly money supply figures late on Friday reinforced market suspicions that an early cut in the U.S. discount rate is looking less and less likely.

The markets had started the week on the wrong foot unnerved by the previous week's disappointing M1 figures and a heavy volume of corporate and Treasury issues. But there was still a school of thought that the combination of sluggish U.S. growth and a slowdown in the broader based U.S. monetary aggregates would allow the authorities to ease credit policy and lower the discount rate ahead of the Williamsburg summit later this month.

As the week progressed, however, market sentiment changed and the stream of strong economic news, in particular the unexpectedly large rise in April retail sales and an upwards revision of the March figures, was further evidence that the economic recovery is proving brisker than expected and the need for a cut in interest rates less pressing.

By the close of business on Friday the Treasury long bond had fallen by more than a point on the week and was trading at 99 7/32, and corporate issues had fallen by one and a half points or so. A large part of the fall in bond prices during the week occurred late on Friday after the announcement of the money supply figures and the sharp jump in U.S. industrial production in April.

Despite the efforts of the authorities to play down the significance of the weekly M1 figures, the credit markets still react nervously to the unexpected, and a $4.2bn increase in M1 was roughly $3bn more than the experts had been predicting. It is roughly $8bn above its target range.

The monthly money supply figures for the broader monetary aggregates were much less worrying. M2 which is the key statistic for monetary policy, rose by $5.4bn in April which puts it below the bottom of the Fed's 7 per cent to 10 per cent target range. Analysts note that M2 would have to rise at an annual rate of 25 per cent in May if it was to pierce the upper limit of the official targets.

Meanwhile M3 rose by $9bn which puts it mid-way in its 6.5 per cent to 9.5 per cent target range.

Despite the reassuring tone of the monthly money supply figures, the U.S. credit markets are focussing temporarily on the spurt in the weekly M1 figure. At the moment analysts are expecting that the current [illegible] increase in M1. The economic data in the coming week, in particular the April personal income and housing starts data, will also give further clues to the strength of the economic recovery which could have important implications for the level of U.S. interest rates.

A number of analysts believe that the market is wrong to focus so much attention on the short-term gyrations of M1 and is overlooking the significant moderation in the broader monetary aggregates. Salomon Brothers' Henry Kaufman, for example, argues that the Fed has "substantial leeway in determining policy for the balance of this month."

He believes that the figures over the next few weeks will reflect fewer structural distortions and the initial inflated growth rates of money market deposits and super-now accounts are winding down. He says that the growth of the money figures should be more closely linked to the performance of the economy over the next few months.

William Hall

U.S. INTEREST RATES (%)

	Week to May 13	Week to May 6
Fed funds wkly aver	8.48	8.60
3-month T-bills	8.08	8.06
3-month CDs	8.30	8.30
30-year Treas bond	10.57	10.47
AAA Utility	11.13	10.88
AA Industrial	11.00	10.75

Source: Salomon Bros. (estimates).
In the week ended May 4 M1 rose by $4.2bn to $499.5bn.

AT & T in agreement with U.S. chip makers

BY LOUISE KEHOE

AMERICAN TELEPHONE & Telegraph, the U.S. telecommunications giant, is to announce today in California technology agreements with three of the leading U.S. manufacturers of semiconductors.

Motorola, National Semiconductor, and Intel have each agreed to make their advanced micro processor devices conform to an AT&T design "operating system" — a housekeeping program for computers — called UNIX version 5.

The agreements, signed with Western Electric, AT&T's manufacturing arm, signal AT&T's strategy as an active open market supplier of electronic and computer equipment, where it will have greater freedom to operate next year when the company undergoes a major reorganisation.

In reaching the agreements, the chip makers will have automatically created an industry standard for high performance micro processor operating systems and at the same time placed AT&T in a position of strength.

National Semiconductor will support UNIX 5 with its 16032 micro processor, Motorola with its 68020 and Intel with its 286. All are the latest versions of the most powerful micro processor chips made by the companies.

Western Electric is itself expected to launch a competitive micro processor chip set — called Bell Mac — onto the open market later this year. UNIX 5 is well suited to the Bell Mac design.

The agreements are said to have involved six figure payments by AT&T to the chipmakers, though none of the parties will comment upon the details of the arrangements.

Canadian Tire profit dips

BY ROBERT GIBBENS IN MONTREAL

PROBLEMS with a U.S. store chain acquired nearly two years ago reduced first-quarter earnings at Canadian Tire, the car parts, sports, and hardware chain. Of all major Canadian retail chains, Canadian Tire has shown the most resilience through two years of recession.

First quarter net profit was $12m (US$ 10.3m) or 86 cents a share, against C$15m or C$1.08, on revenues of C$449m against C$424m.

The Canadian stores had net profit of C$19.5m against C$15.5m.

STET plans major fund raising

By James Buxton in Rome

STET, the Italian state-controlled company which is responsible both for making telecommunications equipment and running most of the country's telephone services, is to carry out a major capital raising operation.

It plans to raise its share capital from L2,040bn ($1.4bn) to L2,550bn by means of rights issues of ordinary and savings shares. Almost 90 per cent of the company's equity is owned by the state industrial holding company IRI, while the rest is quoted on the Stock Exchange.

At the same time it intends to launch a L300bn five-year bond issue which will be convertible after a year into shares of SIP, the now profitable telephone utility which is 80 per cent-owned by STET.

The operations will have the effect of reducing STET's debt which amounted on a consolidated basis to L14,745bn at the end of 1981.

Linde leads field in bidding for Fenwick

BY DAVID MARSH IN PARIS

LINDE, the West German engineering company, has emerged as the front runner among a string of international fork-lift truck makers bidding to take under their wing the troubled French group, Fenwick Manutention.

The French Government gave the go-ahead at the beginning of the year for Fenwick, France's largest fork lift manufacturer, to pass under the control of Balkancar, the Bulgarian company which is the world's largest in the sector.

Ascinter Otis, the French subsidiary of United Technologies, promptly organised a counter-attack along with Fenwick's suppliers, aimed at reaching a "French solution."

Although details have not been finalised, reports in Paris now say that Linde, which entered the fray at a late stage, is now at the head of the field. LancerBoss, the UK fork lift company, was also interested in taking over Fenwick last year but the Government turned down the idea because of the scale of job cuts involved.

The Linde solution has been discussed recently by the Government's inter-ministerial committee for aiding companies in difficulties. The Industry Ministry said the Government was determined to resolve Fenwick's future quickly. Linde in Wiesbaden declined, however, to comment.

Linde's plans for Fenwick—which could entail financial aid or a direct equity stake—are not clear. They are almost certain, however, to involve redundancies. Balkancar proposed taking a 30 per cent stake and cutting 260 jobs from Fenwick's workforce of 1,750. The rival plan for a merger with Saxby, owned by the Otis group and France's second fork lift maker, would have entailed 550 redundancies over four years but would, according to Otis, have protected 6,000 jobs in French suppliers' industries.

Realignment at Corning Glass Works

● CORNING GLASS WORKS has made a major realignment of its operations and executive management. Mr James R. Houghton, vice chairman, was elected chairman of the board and chief executive officer. Mr Amory Haughton, Jr, the present chairman, was elected chairman of the executive committee. In addition to his corporate responsibility, he will focus his attention on a new venture-capital group, as well as on Corning Enterprises Inc, which is being organised to help stimulate the economy in the Corning, NY, area. Mr Van C. Campbell, a senior vice-president, has become a vice-chairman, with responsibility for finance and administration. Mr Thomas C. MacAvoy, president and chief operating officer, is to become vice-chairman, responsible for corporate technology.

Corning said the position of president of the corporation will not be filled. Instead, line operations are being reorganised into three major groups, each to be headed by its own president. Elected to head the new operating groups were: Mr Richard Dulude, president of the electronics and telecommunications group. Mr E. Martin Gibson, president of the health and science group. Mr William H. Hudson, president of the consumer and industry group.

INTERNATIONAL APPOINTMENTS

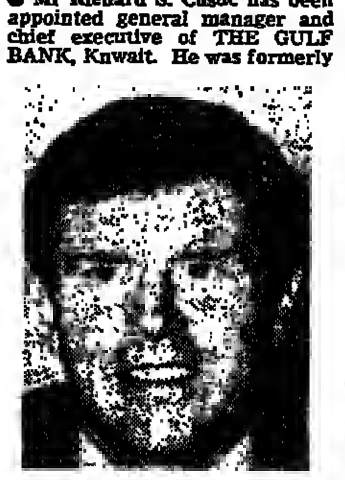
● Mr Per F. Moller, senior vice-president, International, DEN DANSKE BANK, Copenhagen, has been appointed general manager London. Mr Ib Nielsen, first vice-president, International has been appointed managing director of Den Danske Bank International SA, Luxembourg.

● Mr Charles Peacock has been named director of facilities engineering for U.S. TRANSMISSION SYSTEMS, INC, a unit of International Telephone and Telegraph Corporation. In this newly-created position, he will be responsible for all capital and construction-related engineering projects for the USTS telecommunications network.

Mr J. Benton Tindall has become a director of systems analysis and automation. In this newly created position, Mr Tindall will direct computer programming operations analysis functions for the USTS programming department.

● Mr Walter Shipley will succeed Mr Donald Platten as chairman and chief executive officer of CHEMICAL NEW YORK CORP upon Mr Platten's retirement on October 1. Mr Platten will assume the title of chairman of the executive committee. Mr Shipley has served as president of Chemical N.Y. and of the bank since January 1982. He joined the bank in 1956 and was elected senior executive vice president in 1979.

● Mr Richard S. Cusac has been appointed general manager and chief executive of THE GULF BANK, Kuwait. He was formerly



Mr Richard Cusac, chief executive, Gulf Bank

deputy general manager and succeeds Mr Stuart M. Webster who will continue as a special adviser for a limited period of time. Mr Cusac spent 12 years in overseas postings with Citibank, including Saudi Arabia and Hong Kong as country senior officer.

● Mr Reg Mills has been appointed a director and general manager for KERRIDGE COMPUTER CO (IRELAND) based in Dublin.

● Mr Billy Mundow has been appointed director, sales and marketing, for the TWINLOCK GROUP in Ireland. He was sales and marketing manager.

● MOHAWK DATA SCIENCES CORP of Parsippany N.J., U.S. has promoted Mr Douglas G. Pearsall to vice president of finance. Mr Pearsall will have responsibility for treasury and financial planning. He was elected vice president—controller in September 1982.

● Mr H. J. Atkins has been appointed president of GILLETTE CANADA INC. After joining Gillette UK in 1973 he became managing director of Braun UK and subsequently moved to the Braun headquarters in Germany as group general manager for UK, France, U.S. and Canada.

● WESTFIELD MINERALS of Toronto, Canada has made the following appointments of officers and corporate management: Mr P. J. Hughes, chairman and president, Mr S. P. Boland, executive vice-president, Mr P. McAlcer, executive vice-president, Mr C. J. Cunningham-Dunlop, vice-president, Mr J. V. McParland, vice-president, Mr A. H. Meldrum, vice-president exploration, Mr J. F. Kearney, secretary-treasurer, Mr P. D. Downey, controller, Mr J. J. Royall, general manager exploration and development, Mr D. Naylor, general manager oil and gas exploration, Mr T. M. Crandell, manager, operations, Mr N. J. Allman, manager corporate affairs.

● EVANS PRODUCTS has elected Mr Victor Posner chairman of its board. Mr Posner is also chairman, president and chief executive officer of NVF Company, Sharon Steel Corp and other affiliated companies. Mr Monford A. Orloff, former chairman, will remain as president, chief executive officer and a director of Evans. Mr Steven Posner has been appointed vice chairman. Mr Steven Posner is also vice chairman of NVF Company, Sharon Steel Corp and other affiliated companies. Other elected directors are Mr Martin Rosen, senior partner of the law firm of Rosen and Reade, New York, Mr Donald A. Engel, a managing director of Drexel Burnham Lambert, New York. Resignations from the Evans board are Mr Edward Kahn and Mr L. L. Wygal, both executive vice presidents, as well as Dr Piotr Zenczak, consulting employee and former executive vice president.

● GENERAL SIGNAL CORP has elected Dr Robert A. Plane to its board. Dr Plane has been president of Clarkson College of Technology since 1974.

● REYNOLDS METALS CO has elected Mr Jock K. Finlayson, president of The Royal Bank of Canada, to its board. Mr Finlayson fills a board vacancy created by the retirement last year of Mr Fred R. Edney.

● Mr Joseph L. Jones has been elected chief executive officer of ARMSTRONG WORLD INDUSTRIES, INC, effective August 1. On that date Mr Jones, an executive vice-president will become chairman and president. He will succeed Mr Harry A. Jensen, who will continue as a member of the board.

● Mr M. Constance Beck, Mr Colin Crispin and Ms Barbara K. Van Riper have been promoted to senior vice-president in the global funding division of INTERFIRST BANK DALLAS, NA.

● Mr Richard G. Davis, senior economic adviser, has been promoted to senior vice-president at the FEDERAL RESERVE BANK OF NEW YORK, and Mr Andrew Heikaus has been named an officer, as manager, in the electronic payments department. Mr Davis continues to have responsibility for advice and special studies regarding economic affairs and monetary policy. Mr Heikaus will have responsibility for automated clearing house matters.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amex O/S Fin. 10¼ 90	100	98¾	98¾	−0⅛	−0⅛	10.58
Amro Bank 13 88	200	108¼	108¾	−0⅛	+0¼	11.05
Bk. of Amer. 8 88 XW	150	89⅞	90¼	0	−0⅛	10.70
Bk. of Tokyo Hd. 11 90	100	100⅛	100⅝	−0⅛	+0⅛	10.91
British Col. Hyd. 10¼ 88	200	99¾	100¼	−0⅛	0	10.23
Canadair 12½ 89	175	107¼	107⅞	−0¼	−0⅛	10.77
Canadian Wheat 11⅛ 90	50	102⅛	103	−0	−0⅛	10.87
CIBC 11 90	75	98⅛	98⅞	0	0	11.29
Coca Cola Int. 9⅞ 92	100	26⅛	26⅝	−0⅛	−0⅛	10.47
Coca Cola Int. 11⅛ 88	100	105⅛	105⅝	−0⅛	−0⅛	10.49
Cr. Suisse BHA 10⅛ 90	160	100⅛	100⅝	−0⅛	−0⅛	10.41
Credit Suisse 10½ 89	100	102⅛	103	−0⅛	−0⅛	8.89
Deutsche Bk. F. 14¼ 89	300	112⅛	112⅝	−0⅛	−0⅛	11.36
Du Pont 11⅝ 95	150	103⅞	104⅛	0	−0⅛	10.82
Du Pont 14½ 89 WW	200	109	109⅛	0	−0⅛	11.91
EDC 10⅛ 88	100	101⅛	101⅝	−0⅛	−0⅛	10.30
EDF 11⅛ 93	100	98⅛	98⅝	−0⅛	−0⅛	11.40
EEC 10⅛ 95	75	97	97½	−0⅛	−0⅛	11.17
EEC 11⅛ 95	200	100⅛	101⅛	−0⅛	−0⅛	11.32
EIB 11 91	125	100⅛	100⅝	−0⅛	−0⅛	10.89
Exp. Dev. Con. 11¾ 87	100	103⅛	104⅛	−0⅛	0	10.54
Forsmarks 13⅞ 92	75	108⅛	108⅞	−0⅛	−0⅛	12.13
Fuji Int. Fin. 10⅞ 90	100	98⅛	99	−0⅛	−0⅛	11.14
Gaz de France 12⅛ 93	175	102⅛	102⅞	−0⅛	−0⅛	11.79
Gen. Elec. Credit 9¾ 91	100	16⅛	16⅞	+0⅛	+0⅛	10.36
Gen. Elec. Credit 12 88	100	107⅛	107⅞	−0⅛	−0⅛	10.28
GMAC O/S Fin. 10½ 90	200	101	101⅛	−0⅛	0	10.21
Gulf Oil Fin. 12⅛ 87	100	104⅛	105⅛	−0⅛	−0⅛	10.78
Honeywell Int. 10⅛ 90	100	99⅞	100⅛	−0⅛	+0⅛	10.71
IBM Wld. Trade 12⅛ 92	200	110	110⅛	−0⅛	−0⅛	10.48
Ind. Bk. Japan 10⅞ 88	100	99⅛	100⅛	−0⅛	0	10.90
Manitoba Prov. 11⅛ 88	125	105⅛	105⅝	0	+0⅛	10.51
Manitoba Prov. 13⅛ 89	100	111⅛	111⅞	+0⅛	+0⅛	11.07
Merrill Lynch 10⅞ 90	200	99⅛	100⅛	−0⅛	−0⅛	10.65
Midland Int. F. 11⅛ 92	150	102⅛	102⅞	−0⅛	−0⅛	11.02
Mitsubishi Con. 10½ 90	100	98⅞	99⅛	+0⅛	+0⅛	10.88
Nat. West. Fin. 11⅛ 92	150	103⅛	104⅛	−0⅛	−0⅛	11.04
Nippon Credit 11⅛ 93	100	99⅛	99⅝	−0⅛	−0⅛	11.34
OKB 10 91	100	96	96½	−0⅛	0	10.72
Ontario Hydro 11⅛ 88	200	104⅛	104⅝	0	+0⅛	10.25
Ontario Hydro 12⅛ 92	200	109⅛	110	+0⅛	+0⅛	11.01
Prudential O/S 10⅛ 93	100	100⅛	101	−0⅛	−0⅛	10.49
Prudential O/S 12⅛ 87	100	108⅛	108⅝	−0⅛	+0⅛	10.22
Quebec Hy. 11½ 92 (O)	100	102⅛	103⅛	−0⅛	−0⅛	10.97
R. J. Reynolds 12⅛ 89	100	107⅛	107⅝	−0⅛	0	11.02
Saskchwn. Pr. 10⅛ 90	125	100⅛	100⅞	−0⅛	+0⅛	10.60
SNCF 11⅛ 93	100	100⅛	101	−0⅛	−0⅛	11.40
S. Cal. Edison 10⅛ 90	75	100	100½	−0⅛	+0⅛	10.44
Swiss Bk. Con. 10⅛ 90	125	102⅛	102⅝	−0⅛	−0⅛	9.70
Texaco Capital 9⅛ 90	150	96⅛	97	−0⅛	−0⅛	10.42
UBS 10 88	100	101⅛	102⅛	−0⅛	−1⅛	5.47
UBS 11 89	150	103⅛	104⅛	−0⅛	−0⅛	10.10
Walt Disney Pr. 12⅛ 89	75	106⅛	107⅛	−0⅛	−0⅛	10.83
Westpac Int. Fin. 11 90	100	98⅛	99	−0⅛	0	1.19
World Bank 10⅛ 88	150	100⅛	100⅝	−0⅛	−0⅛	10.28
World Bank 10⅞ 93	100	100⅛	101	−0⅛	0	10.74
World Bank 11⅛ 98	100	100⅛	101⅛	−0⅛	+0⅛	10.95

Average price changes... On day −0⅛ on week −0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 8⅞ 93	200	99⅛	100⅛	0	+0⅛	6.89
Bank of Tokyo 7⅛ 90	100	99⅛	100⅛	0	−0⅛	7.18
Bayer Capital 7⅛ 89	150	104⅛	105⅛	0	−0⅛	6.69
Caisse N. Energie 8 93	100	99⅞	100⅛	+0⅛	+0⅛	7.97
Caisse Nat. Tele. 7⅛ 93	100	98⅛	98⅛	+0⅛	0	7.99
ECSC 7½ 93	150	98⅛	99⅛	−0⅛	−0⅛	7.66
EEC 7⅛ 95	200	99⅞	100⅛	0	0	7.73
EEC 8 94	200	100⅛	101⅛	0	−0⅛	7.82
ESCOM 8⅛ 90	150	101⅛	101⅞	0	0	8.18
Eurofima 7⅛ 91	100	101⅛	102⅛	0	−0⅛	7.19
Ferrovie Dello 8⅛ 88	150	101⅞	102⅛	0	0	0.78
H. J. Heinz Int. 6⅛ 88	50	100⅛	101½	+0⅛	−0⅛	5.45
Int.-Am. Dev. Bk. 7⅛ 93	200	97⅞	98⅛	0	+0⅛	8.03
Int.-Am. Dev. Bk. 8⅛ 93	150	101	101⅛	0	0	8.05
Ireland 8½ 90	150	101⅛	102	0	0	8.14
Ireland 8⅞ 91	150	102⅛	103⅛	0	−0⅛	8.34
ITT Antilles 7 93	200	98	98⅞	0	+0⅛	7.25
McDonalds Fin. 7⅛ 92	100	101⅛	102⅛	0	0	6.86
Mitsui OBK 7⅛ 88	100	100⅛	101⅛	+0⅛	+0⅛	6.88
Mount Isa Fin. 7⅛ 90	100	98⅛	98⅝	−0⅛	+0⅛	7.93
Quebec Hydro 8 93	200	102⅛	103⅛	0	+0⅛	7.56
Sweden Kingdom 8⅛ 88	100	102⅛	103⅛	−0⅛	+0⅛	7.66
Volkswagen Int. 7⅛ 93	200	97⅛	98⅛	0	−0⅛	7.52
World Bank 7⅛ 93	200	97⅛	98⅛	0	0	7.52
World Bank 7½ 93	300	98⅛	99⅛	−0⅛	0	7.63

Average price changes... On day 0 on week 0

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Air Canada 5½ 95	100	99⅛	99½	+0⅛	+0⅛	5.86
American Expre. 4⅛ 93	100	84⅛	95	−0⅛	−1⅛	8.44
Asian D. B. 5⅞ 95	100	99⅛	99⅛	+0⅛	−0⅛	5.96
BTR Finance 5⅛ 93	75	97½	97⅞	−0⅛	0	8.86
Carls-Tuborg B. 5⅛ 93	60	102½	102⅛	0	−0⅛	5.40
Chugoku E. Pow. 6⅛ 91	100	102	102⅛	+0⅛	+0⅛	5.77
Chujitsuya Co. 5⅛ 93	50	97⅛	97⅞	+0⅛	+0⅛	6.20
EIB 5⅛ 93	100	98⅛	98⅝	+0⅛	−0⅛	8.80
Ex-Im. Bk. Japan 8 93	100	98⅛	98⅝	0	−0⅛	8.47
Fuji Electric Co. 6 93	100	102	102⅛	+0⅛	+0⅛	8.71
Gothenb'g Airport 6 93	50	100⅛	100½	−0⅛	0	5.94
HCA Finance 8 93	100	98	98⅛	+0⅛	−0⅛	8.25
Manitoba Prov. 5⅛ 93	100	101⅛	101⅛	−0⅛	0	8.03
Nippon Express 5 93	60	100⅛	100⅛	−0⅛	−0⅛	8.91
Nippon Kokan 5⅛ 93	100	95⅛	95⅛	−0⅛	−0⅛	8.23
Norsk Hydro 5½ 96	100	98⅛	98⅛	+0⅛	+0⅛	8.64
OKG 6⅛ 93	60	101⅛	101⅛	+0⅛	−0⅛	8.53
Quebec Hydro 5½ 93	100	100⅛	100½	+0⅛	+0⅛	5.45
Sekisui House 8 93	100	100⅛	100½	0	−0⅛	5.95
Shikoku El. Pow. 5⅛ 93	100	98	98⅛	0	0	5.86
Tohoku El. Power 8 93	100	100½	100⅛	+0⅛	0	5.91
Transcanada Pipe 5⅛ 93	100	99	99⅛	0	0	5.87
Trizec Corpn. 5⅛ 91	100	101⅛	102	−0⅛	−0⅛	5.94
Un. Bk. Norway 5⅛ 93	50	97⅛	97½	−0⅛	−0⅛	5.73
Volvo 5⅛ 91	60	100	100⅛	0	+0⅛	8.35
World Bank 5½ 93	100	99⅛	99⅛	0	0	5.55

Average price changes... On day +0⅛ on week 0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 8⅛ 92	18	105¼	106	0	0	7.75
EIB 8⅛ 92	15	102⅛	103⅛	−0⅛	+0⅛	7.79
Japan Airlines 7⅞ 87	0	†101⅛	102	0	−0⅛	7.31
New Zealand 7⅛ 89	15	101⅛	102⅛	−0⅛	+0⅛	7.26
World Bank 8⅛ 92	20	103⅛	104⅛	+0⅛	+0⅛	7.73

Average price changes... On day 0 on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
CEPME 12⅛ 90 C$	50	†99⅛	99⅛	0	+0⅛	12.58
Form Credit 12⅛ 93 C$	50	†103⅛	103⅛	0	+1⅛	11.60
Intprv. Pipe. 12⅛ 93 C$	50	†99⅛	99⅛	0	+0⅛	12.34
Pancanadian 12⅛ 93 C$	50	†100	100½	0	+0⅛	12.44
Quebec Hyd. 14 92 C$	50	†107⅛	108⅛	0	0	12.48
Swed. E. Cr. 12⅛ 88 C$	50	†103⅛	104⅛	0	0	11.09
Trans. Mont. 12½ 90 C$	20	†98	99	0	0	12.83
EIB 11⅛ 91 ECU	60	100⅛	101⅛	0	+0⅛	11.53
Queb. Prv. 11⅛ 88 ECU	50	98	98⅛	0	+1⅛	11.88
Austria 7⅛ 88 Fl	100	99	99½	−0⅛	−0⅛	7.68
Consol. Foods 7⅛ 89 Fl	100	98⅛	98⅛	0	0	7.65
Nederland Gas 7½ 88 Fl	100	†100⅛	100⅛	0	0	7.40
Philips Lamps 7⅛ 88 Fl	100	†100	100½	0	0	7.10
Quebec Prov. 7⅛ 88 Fl	100	†99	99½	−0⅛	−0⅛	7.88
World Bank 7 88 Fl	150	†97⅛	98	0	−0⅛	7.57
OKB 14 86 FFr	400	99⅛	100⅛	−0⅛	−0⅛	14.04
Solvay et C. 14⅛ 88 FFr	200	100⅛	101⅛	−0⅛	0	14.29
BFCE 11⅛ 88 £	50	98	98½	−0⅛	−0⅛	11.98
BFCE 14⅛ 87 £	30	107⅛	108⅛	0	−0⅛	11.86
CNT 12⅛ 89 £	20	101⅛	102⅛	+0⅛	−0⅛	12.00
EEC 11⅞ 91 £	50	100	100⅛	+0⅛	−0⅛	11.77
Fin. for Ind. 12⅛ 88 £	30	103⅛	104⅛	0	0	11.10
F. Mat. Oranji. 12⅛ 92 £	30	103⅛	104⅛	−0⅛	0	11.94
Gen. Elec. Co. 12⅛ 89 £	60	105⅛	106⅛	+0⅛	−0⅛	11.07
Hiram Walker 14⅛ 86 £	25	107⅛	108⅛	0	+0⅛	10.99
Mort. Bk. Fin. 11⅛ 89 £	15	97	98	0	−0⅛	12.29
Norsk Hydro 12 90 £	30	101⅛	102⅛	−0⅛	−0⅛	11.55
Norsk Hydro 14⅛ 87 £	30	107⅛	108⅛	0	−0⅛	11.79
Quebec 14½ 88 £	50	109⅛	110⅛	0	−0⅛	12.18
SOR France 15⅛ 92 £	30	107⅛	108⅛	0	−0⅛	13.93
SNCF 11⅛ 88 £	50	97⅛	98⅛	+0⅛	−0⅛	11.92
Tenneco Int. 14⅛ 87 £	30	108⅛	109⅛	0	+0⅛	11.80
World Bank 11⅛ 91 £	75	98⅞	99⅛	+0⅛	+0⅛	11.52
Euratom 11 93 LuxFr	500	103⅛	104⅛	+0⅛	+0⅛	10.30
Europarat 10⅛ 93 LuxFr	600	102⅞	103⅞	0	+0⅛	10.18

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Bk. of Tokyo 5⅛ 91 (O)	0⅛	100	100⅛	10/8	9⅛	9.73
BFCE 5⅛ 88	0⅛	99⅛	99⅛	20/7	9⅛	8.30
BFCE 5⅛ 87	0⅛	99⅛	99⅞	27/7	0.94	8.96
Caisse Nat. Tele. 5⅛ 90	0⅛	99⅛	100	21/10	8.56	8.59
CCF 5⅛ 95	0⅛	99⅛	99⅞	7/10	10.18	10.21
CCF 5⅛ 88	0⅛	88⅞	100⅛	24/9	8.84	0.94
CEPME 5⅛ 88 WW	0⅛	99⅛	99⅛	3/6	5⅛	5.28
CEPME 5⅛ 92	0⅛	99⅛	88⅛	10/6	8.84	8.96
Chemical NY 5⅛ 94	‡0⅛	100⅛	100⅛	23/8	9⅞	8.84
Credit Agricole 5⅛ 87	0⅛	99⅛	100⅛	24/9	10	10.00
Credit du Nord 5⅛ 92	0⅛	98⅞	99⅛	23/8	10⅛	10.21
Credit Lyonnais 5⅛ 97	0⅛	99⅛	99⅞	1/10	10.06	10.09
Credit Lyonnais 5⅛ 94	0⅛	99⅛	99⅞	6/7	9⅛	0.79
Credit Nat. 5⅛ 94	0⅛	89	89⅛	9/9	8⅛	8.32
EDF 5⅛ 95 XW	0⅛	99⅛	99⅞	10/8	10	10.04
Kansallis Osaka 5½ 92	0⅛	99⅞	100⅛	8/11	9⅛	9.11
Long Term Credit 5⅛ 92	0⅛	99⅛	100	27/5	10⅛	10.18
J. P. Morgan 5⅛ 97	§0⅛	100⅛	100⅞	12/8	8	0.94
New Zealand 5⅛ 87	0⅛	100⅛	101	7/10	10.06	10.00
NZ Steel Dev. 5⅛ 92	0⅛	100	100⅛	22/6	10.18	10.18
Nippon Credit 5⅛ 90	0⅛	100	100⅛	10/8	9⅞	9.86
Scotland Int. 5⅛ 92	0⅛	100⅛	100⅛	28/9	8.94	8.91
Sec. Pacific 5⅛ 91	0⅛	†100	100⅛	24/6	10.06	10.04
Societe Generale 5⅛ 95	0⅛	99⅛	99⅛	1/9	9⅛	9.55
Standard Chartd. 5⅛ 91	0⅛	100	100⅛	18/5	10.69	10.66
Sweden 5⅛ 93	0⅛	99⅛	100⅛	3/8	10.19	10.19
Sweden 5⅛ 89	0⅛	99⅛	100	26/8	9⅛	9.65

Average price changes... On day 0 on week +0⅛

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 5⅛ 96	7/81	848.2	99⅛	101	+0⅛	−1.22
Bridgestone Tire 5½ 96	3/82	470	110⅛	111⅞	−1½	3.26
Canon 7 97	7/82	748.2	191⅛	193⅛	−0⅞	1.11
Fujitsu Fanuc 4⅛ 96	10/81	4491	122	124	+2	7.31
Hitachi Cable 5⅛ 96	2/82	515	96⅛	98⅛	−0⅛	−1.10
Hitachi Cred. Cpn. 5 96	7/81	1812	100⅛	102⅛	+0⅛	11.36
Honda Motor 5⅛ 97	3/82	759.8	111⅛	113⅛	−0⅛	1.11
Kawasaki 5⅛ 96	5/81	229	81⅛	83	−0⅛	21.71
Kumagai Gumi 6⅛ 97	10/82	400	112⅛	114⅛	0	0.43
Kyowa Hakko 6⅛ 97	2/83	762	102⅛	104	−0⅛	0.37
Marui 6 96	7/81	769.5	125	126½	−0⅛	3.06
Minolta Camera 6 96	10/81	826.4	83⅛	85⅛	−0⅛	44.04
Murata 5⅛ 96	7/81	1714	113⅞	115⅛	+1	7.44
Nippon Electric 5⅛ 97	2/82	765.8	131⅛	133	+0⅛	5.79
Nippon Oil Co. 5⅛ 98	4/83	964	103	104⅛	0	7.39
Nissan Motor 5⅛ 98	4/83	770	98	97⅛	0	−0.60
Olympus Optic 6⅛ 97	12/82	1331	95½	97	−1½	4.67
Orient Finance 5⅛ 97	3/82	927.2	107½	109	−0⅛	2.56
Sumitomo Elec. 5⅛ 97	3/82	577.3	100	101½	−1⅛	−1.22
Sumitomo Met. 5⅛ 96	10/81	296.1	77⅛	79⅛	0	46.58
Sanyo Elec. 3⅛ 93 SwFr	5/83	501	102⅛	103⅛	−0⅛	5.83
Sharp Cpn. 3⅛ 93 SwFr	3/83	1190	†112½	113	−1½	−0.87
Konishiroku 6⅛ 88 DM	8/82	818	111⅛	112⅛	−0⅛	4.70
Mitsubishi H 6 88 DM	2/82	263	107⅛	108½	+0⅛	16.45
Sum Realty 6½ 92 DM	2/83	365	117⅛	118½	−0⅛	3.19

EUROBOND TURNOVER
(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	7,330.7	13,301.8
Previous week	5,173.2	10,575.7
Other bonds		
Last week	1,215.7	989.5
Previous week	1,481.0	699.5

• No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week= Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day= Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on May 13

Optimism at Manor National as losses cut

MOTOR dealer, transport and insurance group Manor National has cut pre-tax losses from £430,000 to £189,000 for 1982, after a fall from £125,000 to £68,000 in the deficit at midway.

There is again no dividend.

The directors say the first quarter of the current year has produced "an encouraging profit," but the second three months was affected by strikes at manufacturers.

With the closure of loss-making depots and reorganisation, the board has reason to hope that the second six months should bring better results than the same period last year.

Much work has been done, they add, to eliminate the losses, and they are now cautiously optimistic.

Apart from new vehicle models from both Ford and Austin Rover, other models are soon to be announced, but competition is still fierce, the directors state. They are confident, however, that trading and profit margins will improve in the near future.

Turnover for the 12 months amounted to £56.6m (£54.91m) and the pre-tax figure comprised a £20,000 loss (£140,000) from continuing operations, £169,000 (£172,000) from discontinued operations, and a non-recurring loss of £10,000 (£108,000).

Interest took £1.09m (£1.04m) and the tax charge was £31,000 (£56,000).

Chemical Methods

The offer for sale of 3,666,000 shares at 115p each in U.S. dishwasher company Chemical Methods Associates Inc. was more than 15 times oversubscribed.

Applications will be allocated on the following basis: 60,000 shares or over—5.4 per cent of the amount applied for, to a maximum of 125,000 shares. 21,000 to 50,000 shares—3,000 shares. 11,000 to 20,000 shares—1,50 shares. 1,500 to 10,000 shares—ballot for 1,000 shares. 200 to 1,000 shares—ballot for 200 shares.

It is expected that dealings on the Unlisted Securities Market will begin today.

Murray Electronics in £30m launch

BY CHRISTOPHER CAMERON-JONES

GLASGOW - BASED investment managers Murray Johnstone are this week asking investors to put up £30m to fund establishment of a big sister to its Murray Technology investment company.

The newcomer, Murray Electronics, also has investment company status but will aim to be an investor in more mature unlisted electronics companies than its predecessor taking substantial minority stakes of between £750,000 and £3m.

An offer for sale of 30m ordinary 25p shares is being made by Robert Fleming & Co at £1 per share. Stockbrokers to the offer are Rowe & Pitman and Laurence, Prust & Co.

Firm intentions to apply for 19.36m shares have been received and notification on a further 2.14m is expected before the application lists open on Thursday. Dealings are expected to begin on May 25.

Though there will be no specific geographic restriction on the portfolio, it is expected that funds will be distributed as to 55 per cent in North America and 40 per cent in the UK.

The aim is to achieve capital growth through investment generally as a lead investor in companies whose management strength, product development and penetration of markets are sufficiently advanced for them to be expected to have their shares dealt on a recognised market within six months to two years without a further injection of capital.

Save in exceptional circumstances, it will not make an investment that is more than 10 per cent of gross funds.

Three members of the ME board, Mr John Johnstone, Dr Peter Barnwell, and Mr Ross Peters, are also directors of Murray Technology which came to the market with a £7m offer for sale in May 1981 and last October raised £5m by way of an open offer.

Mr Johnstone who is chairman of ME is also chairman of Murray Johnstone.

● comment

Murray Technology has yet to report dramatic capital growth. In the 18 months to October it was around 13 per cent but more up to date figures, due soon, should reflect the success of its star performer Corintech. However, this slow take-off is not unexpected as much of its portfolio is in unlisted fledgling companies that may take five years to reach fruition. Murray Electronics, on the other hand, will be involved at a later stage in such companies' lives and should produce returns much faster. But in both cases the investment strategy relies heavily on Ross Peters, a rare breed of technician turned investment manager. Able to assess both technical and financial viability together with market potential of a project his advice is frequently sought by the hundreds of companies examined by the investment team. This ability will be less critical than for MT and existing shareholders in the latter may question just how much of their investment represents an insurance policy for its new bigger sister. The reality should be considerable benefits of cross fertilisation of experience between the two electronics trusts and the rest of Murray Johnstone. This should lower the downside in what is a high risk but exciting area of investment where a few winners can swamp a portfolio. As with MT the new trusts shares will suffer from the glamour of a "high tech" label though the managers seek a more sober image.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Anglo American Coal, Bellway, Matthew Brown, Gmnd Metropolitan, Radio City (Sound of Merseyside), United Scientific.

Finals: Ex-Lands, Excel, John Foster, Geem Gross, Gold and Base Metal Mines, John C. Small and Tidmas, Thomas Warrington, Weeks Associates.

FUTURE DATES

Interims—	
Gomme	May 27
Griqualand Exploration and Finance	June 1
Grootvlei Proprietary Mines	June 1
Marievale Consolidated Mines	June 1
Ranks Hovis McDougall	May 24
Redmen Heenan International	May 19
St. Helena Gold Mines	June 1
Stilfontein Gold Mining	June 1
West Rand Consold. Mines	June 1
Finals—	
Buffelsfontein Gold Mining	June 1
Cadeonia (Transvaal) Colls.	June 1
Foster Brotham	May 25
Hill (Philip) Invest. Trust	May 26
Leigh Interests	June 14
London and Northern	May 25
London Trust	May 19
Pilkington Brothers	June 10
Roper	May 15
Southwest Resources	May 23
Suter	May 20
Trans-Natal Consold. Mines	June 1

Gleeson doubled and record in sight

ON TURNOVER up by £13m to £36m, taxable profits of civil engineer, building contractor and property developer M. J. Gleeson Group virtually doubled from £683,000 to £1.28m for the six months ended December 31 1982.

Regarding current trading and propects, the directors are confident that accounts for the full year will reflect "record levels of output and profitability."

Looking further ahead, they remain cautiously optimistic that there will be further growth in profits, particularly if the improved position in the order book can be maintained.

Non-trading income, up from £557,000 to £847,000 also boosted the pre-tax increase and has encouraged directors to raise the interim dividend from 1.1p to 1.3p net per 10p share.

After tax of £248,000 (£47,000) earnings per share are shown as 10.35p, compared with 6.36p.

The directors say the tax charge is higher because they feel that group relief available in 1982-83 may be insufficient to prevent the incidence of corporation tax on the higher figure of non-trading income. They add that the charge includes ACT of £55,714 (£47,142) payable in connection with the relevant interim dividend.

Anglo-Indonesian

The inclusion of a £94,000 contribution from Eva Industries, acquired last September, helped Anglo-Indonesian Corporation turn round from a loss of £36,000 to a pre-tax profit of £40,000 for 1982.

This, however, excludes results of the Brazilian companies which suffered a £687,000 deficit for the nine months to December 31, compared with £957,000 for the previous 12 months.

Anglo's turnover for the period under review rose sharply from £3.67m to £7.55m and trading profits increased from £43,000 to £59,000. From these, share of associate losses took £19,000 (£79,000). Tax absorbed a further £115,000 (£64,000) for a net deficit of £75,000 (£100,000), but the dividend payment is being held at 1p net.

Minority losses amounted to £31,000 (£29,000) and there were extraordinary debits this time of £189,000 (£233,000), which left the attributable balance £183,000 (£304,000) in the red.

Cattle's progress

The improvement made last year by Cattle's Holdings was likely to continue, Mr Roy Waudby, chairman, told the AGM. He said he looked forward to presenting very good figures for the current year.

The aim in 1983 was to increase productivity by another 5 per cent and he believed this could be achieved

Reliant Motor recovery continues

Reliant Motor, the vehicle manufacturer, continued its gradual recovery in the half year to March 31, 1983 with a turnround from losses of £84,000 to profits of £11,000.

Mr J. F. Marsh, chairman, says that the company is building for the future and, while he anticipated a profit in the second half, with the current level of development work it is bound to be relatively small. For the whole of last year the group made a profit of £208,000 before tax.

Turnover for the first half advanced from £5.1m to £6.6m, a £10,000 profit (£85,000 deficit) was retained and earnings per 5p share of this USM quoted company were 0.2p (1.5p losses).

Setback for Scottish Heritable

A SUBSTANTIAL fall from £757,000 to £143,000 in pre-tax profits is reported by the Scottish Heritable Trust for 1982. At the interim stage this holding company with interests in property and distribution of carpets, floorcoverings and hairdressing supplies, saw its profits fall from £252,000 to £8,000.

Trading profits were down from £1.32m to £1.04m for the year, and property was down from £752,000 to £405,000, carpets and floorcoverings were lower at £563,000 (£568,000), but there were first time contributions from hairdressing supplies £63,000 and oil and gas development £3,000. Turnover was static at £21.26m (£21.27m).

The pre-tax figure was after central costs of £368,000 (£315,000), interest charges £244,000 (£298,000), associate losses of £29,000 (£12,000 profit) and losses of £255,000 (£38,000 profit) from continued activities and non-recurring items. Tax was down from £111,000 to £95,000.

After minority debits of £9,000 (£2,000), attributable profits before extraordinary debits were £36,000 compared with £644,000. Extraordinary debits totalled £1.36m against £521,000 credits.

The final dividend is cut from 2p to 1p net for a total of 2p (3p). Stated earnings per 25p share fell from 7.9p to 0.3p on a net basis, and from 9.8p to 0.8p on a nil distribution basis.

Fairline Boats back in the black

Compared with losses of £64,000 last time, Fairline Boats, Peterborough-based boat builder, turned in taxable profits of £68,000 for the six months ended March 31 1983. Turnover expanded by 39 per cent from £1.67m to £2.32m.

After tax of £35,000 (nil) earnings per 10p share are given as 0.9p (1.8p losses) and the interim dividend is increased to 0.75p (0.5p) net. The directors hope to pay a larger final payment than last year's 0.5p—pre-tax loss for the 1981-82 year was £49,000.

Mr Sam Newington, chairman, reports a good level of order and cash intake, and a substantial increase in productivity and says the company hopes to produce "respectable results" for the second half.

RESULTS AND ACCOUNTS IN BRIEF

CLAYTON SON & CO. (HOLDINGS) (engineer)—Results for 1982 reported April 30. Group fixed assets £2.12m (£2.19m) and net current assets £1.49m (£2.35m). Shareholders' funds £4.77m (£5.35m). Chairman says current year has started with stronger order book than last year. With reorganisation of fabrication facilities well in hand he is looking to 1983 with optimism, despite continuing lack of growth within capital goods industry. Meeting, Leeds, May 26 at 2 pm.

BEAUFORD GROUP (heavy machine tool maker)—Results for 1982 reported April 15. Group fixed assets £1.51m (£1.49m) and net current assets £1.81m (£0.76m). Shareholders' funds £1.87m (£1.66m). Chairman says conditions overall are still tough and expects lower profit in 1983, but remains confident in the longer term future. Meeting, Huddersfield, May 26 at noon.

WEBSTERS GROUP (printer, publisher and wholesale book distributor)—Results for 1982 reported April 20 with chairman's comments. Group fixed assets £5.37m (£4.94m) and net current assets £1.43m (£1.61m). Shareholders' funds £6.13m (£6.09m). Meeting, Aldersgate Institute, E.C., May 27 at noon.

HADEN (building services and metal finishing engineer)—Results for 1982 reported April 21, with chairman's observations on prospects. Group shareholders' funds £26.66m (£25.34m). Fixed assets £20.65m (£18.69m), current assets £86.29m (£82.23m) and current liabilities £73.84m (£70.31m). Increase in net liquid funds £45,000 (£5.75m). Meeting, 7, Tavistock Square, W.C., on June 3 at 3 pm.

JOHN MENZIES (newsagent, bookseller, stationer)—Results for year to January 29, 1983 and prospects reported April 27. Group shareholders' funds £36.8m (£35.6m). Fixed assets £29.2m (£28m). Net current assets £17.1m (£15.8m). Compensation for loss of office £50,000 (nil). Meeting, Edinburgh, May 27, 12.15 pm.

LADBROKE GROUP (hotels, leisure establishments, property and retailing)—Results for 1982 and prospects reported April 8. Shareholders' funds £225m (£180.4m). Fixed assets £210.2m (£199.6m); current assets £144.7m (£122.6m); current liabilities £77.9m (£88.3m); increase in working capital £18.1m (£26m). Meeting, Ladbroke Westmorland Hotel, Lodge Road, London, NW on June 3 at 11 am.

A. B. C. BLACK (publisher)—Results for 1982 reported on April 21 1983. Shareholders' funds £1.52m (£1.26m): fixed assets £57,000 (£45,000): net current assets £1.77m (£1.03m). Meeting, 35 Bedford Row, WC, on May 27 at noon.

BRAMMER (bearing and transmission equipment distributor)—Results for 1982 reported April 7. Group shareholders' funds £35.8m (£34.2m); fixed assets £6.35m (£5.84m): net current assets £24m (£20.92m): net increase in liquid funds £1.14m (£48,000 decrease). Meeting: Glaziers Hall, SE, June 1, noon.

L. J. DEWHIRST HOLDINGS (clothing manufacturer and wholesaler)—Results for year to January 14 1983 reported on April 15. Shareholders' funds £10.61m (£9.13m): fixed assets £9.9m (£5.99m): net current assets £4.46m (£4.02m): net increase in funds £214,886 (£1.35m). Meeting: York, June 10 at noon.

GREENBANK INDUSTRIAL HOLDINGS (engineer)—Results for 1982 reported April 8. Gross shareholders' funds £4.77m (£4.95m): fixed assets £2.72m (£2.3m): net current assets £2.09m (£2.65m), including short-term deposits, bank balances £1.76m (£3.39m); decrease in working capital £561,641 (£1.15m increase). Current books at start of 1983 at "acceptable level" though some 11 per cent lower than at same time last year. Meeting: Blackburn, May 26, 3 pm.

HOSKINS & HORTON (building and hospital equipment)—Results for 1982 reported on April 25. Shareholders' funds £3.01m (£2.74m); fixed assets £2.02m (same); net current assets £1.27m (£1.18m). Meeting: Birmingham, June 2 at 12.20 pm.

ESI GROUP (engineering)—Results for 1982 reported April 27. Group fixed assets £9.18m (£7.37m). Net current assets £12.11m (£11.67m). Shareholders' funds £21.06m (£18.52m). Meeting, Armourer's Hall, EC, June 14, noon.

TITAGHUR JUTE FACTORY—Results for year ended June 30 1982 already known. Shareholders' deficit £1.35m (£3.45m). Net current liabilities £3.64m funds. Fixed assets £8.25m (£5.45m). Net current liabilities £5.22m (£157,604 assets). Meeting. Calcutta, May 31.

WATTS BLAKE BEARNE & CO. (ball and china clays)—Results for 1982 and prospects reported March 31. Group shareholders' funds £23.44m (£21.89m). Fixed assets £22.14m (£21.04m). Net current assets £3.18m (£2.86m). Meeting: Moretonhampstead, Devon, June 3, at 2.30 pm.

QUEENS MOAT HOUSES—Results for 1982 reported April 12 and announcement of rights issue May 11. Group fixed assets £82.69m (£71.7m). (£10.28m; net current liabilities £8.09m). Shareholders' funds £34.61m (£31.44m). Meeting, Woodford Green, Essex, on June 3, noon.

LYLE SHIPPING—Results for 1982 reported on April 9, 1983. Shareholders' funds £29.87m (£35.68m): fixed assets £61.51m (£44.99m): net current liabilities £4.5m (£7.26m assets); decrease in working capital £12.01m (£7.38m increase). Chairman says that although financial position has inevitably deteriorated as a result of its shipping losses, it faces the future with confidence and a strong belief in its ability to return to acceptable levels of profitability on any significant improvement in market conditions. Meeting: Glasgow, June 3, at noon.

LADBROKE INDEX

673-678 (+3)

based on FT Index

Tel: 01-493 5261

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1983 High	1983 Low	Stock	Closing price p	+ or −	Net Div.	Times covered	Gross yield	P/E ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1983 High	1983 Low	Stock	Closing price £	+ or −
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

"RIGHTS" OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1983 High	1983 Low	Stock	Closing price p	+ or −
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

PENDING DIVIDENDS

	Date	Announcement last year		Date	Announcement last year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Financial Times Monday May 16 1983

A copy of this Prospectus, having attached thereto the documents referred to below, has been delivered to the Registrar of Companies in Edinburgh for registration.

This Prospectus includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Murray Electronics PLC ("the Company"). The directors of the Company have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the directors accept responsibility accordingly.

Application will be made to the Council of The Stock Exchange for admission to the Official List of the Ordinary Shares of 25p each of the Company issued and now being issued.

MURRAY ELECTRONICS PLC

(Incorporated in Scotland under the Companies Acts 1948 to 1981 with registered number 82551)

OFFER FOR SALE

by

ROBERT FLEMING & CO. LIMITED

of

30,000,000 Ordinary Shares of 25p each at 100p per share payable in full on application

Notification of firm intentions to apply for 19,360,000 Ordinary Shares under the Offer for Sale has been received. Moreover, further such notification in respect of up to 3,140,000 Ordinary Shares may be received, prior to the opening of the Application List, from persons approached before such time. It is intended to accept all such applications in full.

The Ordinary Shares now being offered for sale rank in full for all dividends hereafter declared or paid on the Ordinary share capital of the Company.

The Application List for the Ordinary Shares now offered will open at 10 a.m. on 19th May, 1983 and may close at any time thereafter. The procedure for application is set out at the end of this prospectus.

SHARE CAPITAL

Authorised		Issued and now being issued
£10,000,000	in Ordinary Shares of 25p each	£7,500,000

Directors
JOHN RAYMOND JOHNSTONE, B.A., C.A., Wards, Gartocharn, Dunbartonshire. *Chairman.*
PETER GEORGE BARNWELL, B.Sc., Ph.D., 83 Brown Street, Salisbury, Wiltshire.
CLIVE ANTHONY DAVIES, B.Sc., Huish Manor, Winterborne Zelston, nr. Blandford, Dorset.
ROSS STEVENSON PETERS, M.A., Wester Kerse, Lochwinnoch, Renfrewshire.
ERIK OYVIND JARL SALBU, *(Citizen of Norway)*, 23641 Camino Hermosa, Los Altos Hills, California 94022.
PETER SMITHAM, B.Sc., Flat 4, 5/6 Clarendon Terrace, Marine Parade, Brighton, Sussex.

Manager and Secretary
MURRAY JOHNSTONE LIMITED, 163 Hope Street, Glasgow G2 2UH.

Registered Office
163 Hope Street, Glasgow G2 2UH.

Issuing House
ROBERT FLEMING & CO. LIMITED, 8 Crosby Square, London EC3A 6AN.

Auditors and Reporting Accountants
ARTHUR YOUNG McCLELLAND MOORES & CO., Chartered Accountants, George House, 50 George Square, Glasgow G2 1RR.

Solicitors to the Company
MONCRIEFF WARREN PATERSON & CO., 1 Blythswood Square, Glasgow G2 4AA.

Solicitors to the Offer
LINKLATERS & PAINES, Barrington House, 59/67 Gresham Street, London EC2V 7JA.

Stockbrokers
ROWE & PITMAN, City-Gate House, 39-45 Finsbury Square, London EC2A 1JA and The Stock Exchange.
LAURENCE, PRUST & CO., Basildon House, 7/11 Moorgate, London EC2R 6AH and The Stock Exchange.

Bankers and Receiving Bankers
CLYDESDALE BANK PLC, 30 Lombard Street, London EC3V 9BB.

Registrar and Transfer Office
CLYDESDALE BANK PLC, Stock Exchange Services Department, 30 St. Vincent Place, Glasgow G1 2HL.

Consultants and Advisers
DATAQUEST INCORPORATED, 1290 Ridder Park Drive, San Jose, California 95131.
ROBERT FLEMING INCORPORATED, 630 Fifth Avenue, New York, NY 10020.

INTRODUCTION

The objective of the Company is to achieve capital growth through investment principally in unlisted electronics companies whose management strength, product development and penetration of markets are sufficiently advanced for an investor to expect that these companies' shares will become traded on a recognised securities market without an intervening injection of outside capital. In certain of these investments the Company expects to act as the lead investor.

The directors believe that there is a growing number of such companies which, in seeking finance, appreciate the involvement of an investor able to contribute advice and technical assistance in addition to financial resources. Murray Johnstone Limited ("Murray Johnstone"), the manager of the Company, has had considerable experience of giving assistance of this kind, especially in the development of contacts and in the transfer of technology between North America and the United Kingdom. The directors believe that Murray Johnstone has gained a reputation as a result of this experience which will lead to the Company receiving opportunities to invest in companies seeking such a contribution. They further believe that the Company's involvement should facilitate the successful development of many of these companies.

MANAGEMENT

The Company is to be managed by Murray Johnstone which has developed considerable expertise in appraising unlisted companies and selecting those suitable for investment. Over the past two years, Murray Johnstone, through its contacts with high technology companies and organisations specialising in the finance of such companies, has considered over 500 unlisted investment propositions. Although no investment commitments have been made on behalf of the Company, its directors believe that Murray Johnstone's knowledge of the market will enable it to identify investment opportunities for the Company within a reasonable period after this Offer for Sale.

Among unlisted high technology investments made by Murray Johnstone on behalf of clients, the following have either been taken over or have graduated to a listing on The Stock Exchange or are traded on an overseas market:

BR Communications
Computer and Systems Engineering PLC
Diasonics Inc.
Eurotherm International P.L.C.
Jermyn Holdings Limited
J K Lasers Limited
Masstor Systems Corporation
Unitech P.L.C.

Murray Johnstone is a company whose business is that of investment management and advice. It is wholly owned by five listed investment trust companies ("the Murray Trusts"). In addition to the portfolios of the Murray Trusts it also manages the investments of Murray Technology Investments PLC, and of a number of pension funds and other clients. Total funds under management or advice exceed £1,000 million.

Murray Technology Investments PLC ("Tech")

Murray Johnstone is investment manager of Tech which has, since its formation in 1981, invested in high technology companies. Its portfolio, however, has a wider spread than is the intention in the case of the Company, and contains investments in unlisted companies at all levels of development. Although Tech will be interested in a large number of investments unlikely to interest the Company, most of the investments of the Company are likely to be of interest to Tech. Accordingly, the Company has agreed with Tech and Murray Johnstone that, where the Company is considering a new investment, Tech will be given the opportunity to participate in up to one-third in value of such investment.

In order that shareholders in Tech may have the opportunity of investing in the Company, they will be given Preferential Application Forms for this Offer for Sale, as set out in Procedure for Application below.

INVESTMENT POLICY

The directors of the Company do not intend to place a restriction on the proportion of the Company's portfolio which is invested in any one country but they expect that the eventual distribution will be some 55 per cent. in North America, 40 per cent. in the United Kingdom and the balance elsewhere.

Although the Company will, where it considers it appropriate, seek Board representation it will not take controlling shareholdings or management control. It expects to take substantial minority stakes of between £750,000 and £3 million in the companies in which it invests.

It is the intention of the directors that, save in exceptional circumstances, no single investment will, at the time of acquisition, represent more than 10 per cent. of the Company's gross investment fund. Moreover the Regulations of The Stock Exchange concerning investment companies require that not more than 20 per cent. of the Company's gross investment fund may be represented by an investment in any one enterprise at the time that such investment is made. In addition, in order to qualify as an approved investment trust within the meaning of section 359 (as amended) of the Income and Corporation Taxes Act 1970 no holding in any one company (other than a company which is for the time being an investment trust) may represent more than 15 per cent. by value of the Company's investments at the time the investment is acquired.

Although the Company's articles of association contain borrowing powers, it is not the present intention of the directors that the Company should borrow any significant sums of money.

The directors do not intend altering any aspect of the Company's investment policy as set out in this document for a period of at least three years from the date hereof.

DIRECTORS

J. R. Johnstone (53) is the managing director of Murray Johnstone, the chairman of Scottish Amicable Life Assurance Society, the chairman of The Dominion Insurance Company Limited and the chairman of Tech.

Dr. P. G. Barnwell (38) is the founder, chairman and managing director of Corintech Limited (a designer and manufacturer of micro-electronic circuits) and a director of Tech. He was formerly senior lecturer in electronics at Brighton Polytechnic during which time he acted as a consultant to a number of companies including THORN EMI plc.

C. A. Davies (39) is chief executive of Information Technology Limited ("ITL") and a member of the Advisory Panel to the Cabinet on Information Technology. He is also a director of Rodime PLC. Before founding ITL he was managing director of Membrain Limited, which was sold to Schlumberger Limited in 1977. Prior to that he was a research engineer in computer and integrated circuit design with The Plessey Company plc.

R. S. Peters (40) is an executive director of Murray Johnstone where he is responsible for investments in unlisted companies. After reading Natural Sciences and Economics at Cambridge, he was employed by Rolls-Royce Limited where he designed computer systems and subsequently by McLintock Moores & Murray, management consultants, where he advised a wide range of industrial companies. He was the main architect of Tech and is responsible for the implementation of its investment objectives. He is a director of Tech which he represents on the boards of a number of technology companies in the United Kingdom and North America.

E. O. J. Salbu (46) has served as president and chairman of the board of Masstor Systems Corporation since its formation in 1976. Before founding that company, he was responsible for the development, marketing and management of a mass storage system program at Ampex Corporation where he worked for ten years. Prior to this, he participated in the initial development of a mass storage product by International Business Machines Corporation.

P. Smitham (41) is the managing director of Jermyn Holdings Limited (a distributor of electronic components in the United Kingdom, Germany and France) where he has been employed since 1973. He formerly held senior management positions with International Telephone and Telegraph Components Group Limited.

ADVISERS AND CONSULTANTS

The Company has retained as advisers and consultants Robert Fleming Incorporated and Dataquest Incorporated ("Dataquest").

Robert Fleming Incorporated, a registered broker-dealer, is a wholly-owned subsidiary of Robert Fleming Holdings Limited. Among other activities, it provides a range of financial services and advice, including a smaller company and venture capital specialist investment research service both for Robert Fleming Holdings Limited and its subsidiaries and for international corporate and private clients. Robert Fleming Incorporated will assist the Company with the financial investigation of investment opportunities in North America.

Dataquest, a subsidiary of A. C. Nielsen Company, is an electronics industry research group with a presence in the U.S.A., the United Kingdom, Japan, Germany and France. Dataquest spent approximately $10 million in its last financial year in updating its technology database with information on products, markets and companies and has more than five hundred technology companies as its clients. Dataquest will assist with the identification of companies which meet the Company's investment criteria. The directors of the Company consider that the database of Dataquest includes information on emerging companies in the technological field which are actively seeking investors with the level of understanding and commitment which is available to the Company through its manager and with the contribution the Company can therefore make.

RISK FACTORS

Many of the companies in which the Company invests will, by the nature of the industries in which they operate, be exposed to the risk of changes in technology and in many cases to severe competition from other companies. Potential investors, therefore, must be aware of the risk associated with the Company's investment policy, although the number of investments should reduce the degree of risk.

TAXATION

It is the intention of the directors to ensure that the Company will satisfy the conditions for approval as an investment trust laid down in section 359 (as amended) of the Income and Corporation Taxes Act 1970 and to apply to the Inland Revenue for approval of the Company as an investment trust. The Company will be exempt from United Kingdom tax on chargeable gains realised during any accounting period for which such approval is obtained.

ACCOUNTS

The accounting reference date of the Company is 31st July and the first accounts of the Company will be made up for the period from 4th April, 1983 (the date of its incorporation) to 31st July, 1984. All investments will be revalued annually for the purposes of the accounts.

ACCOUNTANTS' REPORT

The following is the text of a report received by the directors of the Company and of Robert Fleming & Co. Limited from Arthur Young McClelland Moores & Co., Chartered Accountants, the reporting accountants and the auditors of the Company:—

The Directors,
Murray Electronics PLC,
163 Hope Street,
Glasgow G2 2UH.

George House,
50 George Square,
Glasgow G2 1RR.

and

The Directors,
Robert Fleming & Co. Limited,
8 Crosby Square,
London EC3A 6AN.

12th May, 1983.

Dear Sirs,

We report that Murray Electronics PLC was incorporated on 4th April, 1983. Since that date no accounts have been made up, no dividends have been declared or paid and the Company has not commenced business.

Yours faithfully,
ARTHUR YOUNG McCLELLAND MOORES & CO.,
Chartered Accountants.

DIVIDENDS

The Company intends to derive its income wholly or mainly from shares and securities and will retain no more than 15 per cent. of its income from that source. Since many of the companies in which the Company will invest will be at the development stage, any dividends which they pay are likely to be small. The directors expect shareholders to accept capital growth as the main investment objective. The Company will not distribute by way of dividend either surpluses arising from the realisation of its investments or profit retained by its associated companies (if any).

STATUTORY AND GENERAL INFORMATION

THE COMPANY

The Company was incorporated in Scotland as a public limited company on 4th April, 1983 with its present authorised share capital.

The only shares in issue are two Ordinary Shares of 25 pence each, taken by the subscribers of the memorandum of association.

On 9th May, 1983 the Company resolved (a) to adopt new articles of association appropriate to a listed company (b) that the directors be authorised generally to exercise the power of the Company to allot Ordinary Shares in the capital of the Company not exceeding £10 million in aggregate nominal amount at any time or from time to time during the five years (subject to permitted exceptions) following the date of the resolution and (c) that the pre-emption provisions of section 17(1) of the Companies Act 1980 should not apply to the directors' power to make allotments of Ordinary Shares in connection with a rights issue or to make other allotments of Ordinary Shares up to a maximum nominal amount of £8 million and that such power should expire (subject to permitted exceptions) at the next annual general meeting of the Company.

The Company has applied to the Registrar of Companies for a certificate to commence business under section 4 of the Companies Act 1980.

The Company has given notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to section 41(3) of the Companies Act 1980.

ARTICLES OF ASSOCIATION

The articles of association of the Company contain, *inter alia*, provisions to the following effect:—

(i) The directors may carry to capital reserves any net capital appreciation realised on the sale or realisation of any capital assets of the Company for a consideration in excess of book value and any other sums representing accretions to capital. Such capital appreciation shall not be treated as representing profits available for distribution but may be used for offsetting capital losses.

(ii) On a show of hands every member present in person (or, if a corporation, present by a duly authorised representative) and entitled to vote shall have one vote and upon a poll every member present in person or by representative as aforesaid or by proxy, and entitled to vote, shall have one vote for every 25p in nominal amount of shares held by him.

(iii) If, within 28 days, compliance is not made with any notice given by the Company requiring the disclosure of the beneficial interests in any shares or other information relating thereto pursuant to section 74 of the Companies Act 1981, those shares shall be disenfranchised until the required disclosure is made.

(iv) A director shall not require a share qualification.

(v) A director shall not vote in respect of any contract, proposal or arrangement in which he is interested. This provision is subject to limited exceptions, and may be suspended or relaxed to any extent by ordinary resolution of the Company.

(vi) Section 185 of the Companies Act 1948, relating to the retirement and reappointment of directors who have attained the age of 70, shall apply to the Company.

(vii) The rate of ordinary remuneration of the directors, fixed at £5,000 per annum per director (£7,500 per annum in the case of the Chairman), may only be varied by ordinary resolution of the Company. Directors shall be entitled to be repaid all reasonable expenses incurred by them in attending Board meetings. Any director who is called upon to perform special services or to travel on the Company's business may be paid reasonable expenses and such additional remuneration therefor as the directors may determine.

(viii) The directors may pay pensions or other retirement, superannuation, death or disability benefits to any director or ex-director or to the widow or dependants of any such director or ex-director.

(ix) The directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and (so far as permitted by law) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party, provided that the aggregate principal amount for the time being remaining undischarged of all moneys borrowed by the Company and (so far as the directors are able to secure) its subsidiary companies (exclusive of intra-group borrowing) shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to 1½ times the adjusted total of capital and reserves (as defined in the articles of association).

MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Company since its incorporation and are or may be material:—

1. An agreement dated 12th May, 1983, between the Company and Dataquest, whereby for an initial consideration of $20,000 per annum, Dataquest has agreed, for an initial period of three years from 19th May, 1983, to assist the Company with the identification of businesses which meet the Company's investment criteria. The agreement is conditional on the issue to the Company of a certificate to commence business under section 4 of the Companies Act 1980.

2. An agreement dated 12th May, 1983, between the Company and Robert Fleming Incorporated, whereby for the latter's normal fees for such services (subject to a minimum of $40,000 per annum) the latter has agreed, for an initial period of three years from 19th May, 1983, to assist the Company with *inter alia* the evaluation of businesses in North America which have been identified as meeting the Company's investment criteria. The agreement is conditional on the issue to the Company of a certificate to commence business under section 4 of the Companies Act 1980.

3. An agreement dated 12th May, 1983, between the Company and Murray Johnstone, whereby Murray Johnstone has agreed to provide investment management and related services to the Company for a quarterly payment at the rate (subject to review) of ⅛ per cent. of the value of the gross assets (as defined in the agreement) of the Company at the beginning of each quarter (under deduction of certain sums paid by the Company to Dataquest and to Robert Fleming Incorporated for their services under contracts 1 and 2 above). The agreement, which is conditional on the issue to the Company of a certificate to commence business under section 4 of the Companies Act 1980, is for an initial period until 31st July, 1986 and includes the agreement of the Company to Murray Johnstone's negotiating for itself the acquisition of rights in or over any enterprise in which the Company is making an investment, but not exceeding in each case 2½ per cent. of the value of the equity (as such terms are defined in the agreement) of such enterprise; any such acquisition shall be made on terms no more favourable than those of any comparable acquisition by the Company.

4. An agreement dated 12th May, 1983 among the Company, Tech and Murray Johnstone, whereby for an initial period of five years (subject to the Company and Tech being under common investment management) the parties have agreed that Tech should be given the opportunity to participate in up to one-third in value of every new investment considered by the Company.

5. The agreement dated 12th May, 1983 referred to in paragraph 1 below.

GENERAL

1. An agreement has been made dated 12th May, 1983 between the Company (1), Murray Johnstone (2), the directors of the Company (3) and Robert Fleming & Co. Limited ("Robert Fleming") (4) under which Robert Fleming have agreed, conditionally upon the shares now being offered for sale being admitted to the Official List not later than 26th May, 1983, to take up 30 million Ordinary Shares in the capital of the Company and to offer them for sale for a commission of 2 per cent. (exclusive of VAT) of the total offer price out of which it will pay underwriting commission of 1¼ per cent., fees to Rowe & Pitman and Laurence, Prust & Co. and its own legal and out of pocket expenses. The Company will pay its preliminary expenses of £500 and also the remaining expenses of this offer, including accountancy and legal expenses, capital duty, the cost of printing and circulating this Prospectus and the fees and expenses of the receiving banker, which, together with the commission of 2 per cent. referred to above, are estimated to amount in aggregate to £1.1 million (exclusive of VAT where applicable).

2. No share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

3. Save in connection with this Offer for Sale, since the Company's incorporation:—
(i) no share or loan capital of the Company has been issued or agreed to be issued or is proposed to be issued for cash or otherwise; and
(ii) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any of its capital.

4. The directors are not aware of any litigation or claim pending or threatened against the Company.

5. Following completion of this Offer for Sale, no material issue of Ordinary Shares of the Company (other than to shareholders *pro rata* to their existing holdings) will be made within one year of the date of this Prospectus and no issue which would effectively alter the control of the Company will be made at any time without the prior approval of the Company in general meeting.

6. The Company has no loan capital (including term loans) outstanding or created but unissued, nor any mortgages, charges or other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances or acceptance credits, hire purchase commitments or guarantees or other material contingent liabilities.

7. The minimum amount which in the opinion of the directors must be raised by the issue of the Ordinary Shares in order to provide for the matters referred to in paragraph 4 of the Fourth Schedule to the Companies Act 1948 is £500 made up as follows:—
(i) purchase price of property: nil;
(ii) preliminary expenses (including VAT) payable by the Company: £500;
(iii) repayment of moneys borrowed for preliminary expenses: nil; and
(iv) working capital: nil.

No amount is to be provided in respect of any of the matters aforesaid otherwise than out of the proceeds of the issue.

8. (i) Mr. J. R. Johnstone and Mr. R. S. Peters, directors of the Company, are directors of Murray Johnstone (a promoter of the Company) which will receive fees as the manager of the Company pursuant to Material Contract 3 above.

(ii) Robert Fleming Holdings Limited, which is the holding company of Robert Fleming, is also the holding company of Robert Fleming Incorporated which will receive fees as an adviser to the Company pursuant to Material Contract 2 above.

APPOINTMENTS

ABTA elects new president

The ASSOCIATION OF BRITISH TRAVEL AGENTS (ABTA) has elected Mr Eric Sutherland, vice-chairman of Olympic Holidays, as president. Mr Colin Trigger takes over as chairman of the tour operators' council. He is managing director of Scantours. ABTA's Retail Agents' Council has returned Mr Gerry Fernback, managing director and chairman of Embassy Travel for a third year as chairman.

*

Mr G. K. Patterson has been appointed a director of TERRA NOVA INSURANCE COMPANY. He is senior executive vice president of Insurance Company of North America. Mr J. R. Cox has resigned as a director of Terra Nova.

*

Mr George W. Cameron has been appointed to the board of British Shipbuilders' subsidiary, VOSPER THORNYCROFT (UK), as director, products and support projects. Since 1981 he has been general manager in charge of controls unit at Cosham.

*

The BRITISH TEXTILE CONFEDERATION has elected to serve in 1983-84 as president Mr John Lister, chairman of ICI Fibres, in succession to Mr C. Russell Smith; as deputy president Mr C. Russell Smith, chairman of Allied Textile Companies; as vice presidents Mr Dennis Balbs was elected and Mr J. Brown. Mr J. A. Clough and Mr A. R. Guy were re-elected.

*

The BRITISH CERAMIC PLANT AND MACHINERY MANUFACTURERS ASSOCIATION has appointed Mr Paddy Evans as director, following the death last year of Mr Chris Hench.

*

LONDON AND CONTINENTAL ADVERTISING HOLDINGS has appointed Mr Jeffrey G. Fowler to the board. He has been managing director of London and Continental Posters, a subsidiary, since its formation in February 1981.

*

Mr C. Koetsier, who is a director of Hoogovens Group BV of Holland, has been appointed a director of BAXTER FELL AND CO. following the retirement of Mr F. P. M. Burmanje.

*

Following the death of Mr Desmond A. Reid THE YOUNG COMPANIES INVESTMENT TRUST has appointed Mr G. Malcolm Murray acting chairman of the board.

*

As part of the re-organisation of the UK group, SOLEX, has appointed Mr G. L. Lawrence as chairman; Mr P. de Backer as director; Mr T. J. Ullman as technical director; and Mr J. R. Richards as company secretary. Mr R. D. Baines becomes manufacturing director of the UK group's main operating subsidiary, Solex (UK). The companies are in Groupe Matra.

*

The NATIONAL ECONOMIC DEVELOPMENT OFFICE has appointed Professor John Ashworth as chairman of the information technology sector working party. He is vice chancellor of Salford University. From 1976-1981 he was chief scientist in the Central Policy Review Staff.

*

Mr Richard Batson has been appointed assistant secretary at British Gas headquarters in London. He has been acting assistant secretary since October 1982.

*

The INSTITUTE OF STATISTICIANS has elected Sir John Boreham, as president.

*

Mr Michael Mybill, marketing manager of ANGLIA SIGNS & DISPLAYS, Norwich, has been appointed to the board as sales director.

*

Professor Sir Douglas Black (president of the Royal College of Physicians until March, has retired as chairman of the SMITHKLINE FOUNDATION. He is succeeded by Professor Sir William Paton, professor of pharmacology at Oxford University. Sir William has been a trustee of the foundation since 1971.

*

Mr Mike Childs has been appointed marketing director for NATIONAL CARRIERS, CONTRACT SERVICES, based in Bedford. He was marketing manager.

*

Mr Terry A. Hockley has been appointed financial director of AUTOSENSE EQUIPMENT and Autosense Equipment Inc based at Bicester, a subsidiary of United Technologies Corporation. He is currently administration director of Sheaffer Pens at Hemel Hempstead.

*

Mr Michael H. Baker and Mr Martin W. Edmonds have been appointed directors of RTC, insurance brokers. Mr Baker with special responsibility for the marine department and Mr Edmonds with special responsibility for accounting and administration.

*

The BRITISH PROPERTY FEDERATION has elected Mr Dennis Marler, managing director of Capital and Counties, to succeed Mr Christopher Benson as president. Mr Harry Axton, chairman-elect of Brixton Estate, was elected senior vice-president. Mr Richard Saunders, of Baker Harris Saunders, and Mr Gerald Powell of Haslemere Estates were re-elected as honorary treasurer and junior vice-president respectively.

*

At YELVERTON INVESTMENTS, Mr J. R. Bentley has been appointed managing director.

*

Mr John M. Tiplady has been appointed operations director of THERMALITE, part of John Laing.

*

Mr Alan Chaplin has rejoined consulting actuaries R. WATSON & SONS. He left the partnership in 1973 and for the past few years has been general director in the international division of William M. Mercer Inc based in New York.

*

Mr T. R. Hill has been elected President of the BRITISH SCRAP FEDERATION.

BASE LENDING RATES

A.B.N. Bank	10 %	■ Guinness Mahon	10 %
Al Baraka International	10 %	■ Hambros Bank	10 %
Allied Irish Bank	10 %	Heritable & Gen. Trust	10 %
Amro Bank	10 %	■ Hill Samuel	§10 %
Henry Ansbacher	10 %	C. Hoare & Co.	†10 %
Arbuthnot Latham	10 %	Hongkong & Shanghai	10 %
Armco Trust Ltd.	10 %	Kingsnorth Trust Ltd.	11 %
Associates Cap. Corp.	10 %	Knowsley & Co. Ltd.	10½%
Banco de Bilbao	10 %	Lloyds Bank	10 %
Bank Hapoalim BM	10 %	Mallinhall Limited	10 %
BCCI	10 %	Edward Manson & Co.	11½%
Bank of Ireland	10 %	Midland Bank	10 %
Bank Leumi (UK) plc	10 %	■ Morgan Grenfell	10 %
Bank of Cyprus	10 %	National Westminster	10 %
Bank of Scotland	10 %	Norwich Gen. Tst.	10 %
Banque Belge Ltd.	10 %	P. S. Refson & Co.	10 %
Banque du Rhone	11 %	Roxburghe Guarantee	10½%
Barclays Bank	10 %	Royal Trust Co. Canada	10 %
Beneficial Trust Ltd.	11 %	Slavenburg's Bank	10 %
Bremar Holdings Ltd.	11 %	Standard Chartered	‖10 %
Brit. Bank of Mid. East	10 %	Trade Dev. Bank	10 %
■ Brown Shipley	10 %	Trustee Savings Bank	10 %
Canada Perm't Trust	11 %	TCB	10 %
Castle Court Trust Ltd.	10½%	United Bank of Kuwait	10 %
Cayzer Ltd.	10 %	Volkskas Intl. Ltd.	10 %
Cedar Holdings	10 %	Westpac Banking Corp.	10 %
■ Charterhouse Japhet	10 %	Whiteaway Laidlaw	10½%
Choulartons	11 %	Williams & Glyn's	10 %
Citibank Savings	¶10 %	Wintrust Secs. Ltd.	10 %
Clydesdale Bank	10 %	Yorkshire Bank	10 %
C. E. Coates	10½%		
Comm. Bk. of N. East	10 %		
Consolidated Credits	10 %		
Co-operative Bank	*10 %		
The Cyprus Popular Bk.	10 %		
Duncan Lawrie	10 %		
E. T. Trust	10½%		
Exeter Trust Ltd.	11 %		
First Nat. Fin. Corp.	12½%		
First Nat. Secs. Ltd.	12 %		
Robert Fraser	10½%		
Grindlays Bank	‡10 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 6.75%, 1-month 7.00%. Short-term £8,000/12-months 9.35%.
† 7-day deposits on sums of: under £10,000 6¾%, £10,000 up to £50,000 7¼%, £50,000 and over 8¼%.
‡ Call deposits £1,000 and over 6¾%.
§ 21-day deposits over £1,000 7¼%.
‖ Demand deposits 6¾%.
¶ Mortgage base rate.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	London Furniture Show (01-385 1200) (until May 18)	Earls Court
Current	Interior Design International (01-540 1101) (until May 19)	Olympia
May 16-17	Direct Marketing Fair and Conference (0727 25209)	Kensington Exhibition Centre, W8
May 17-20	Automated Manufacturing Exhibition and Conference—AUTOMAN (01-747 3131)	NEC, Birmingham
May 24-27	Chelsea Flower Show (01-834 4333)	Royal Hospital
May 24-26	International Conference and Exhibition on Computers and Communications in Investment Banking and Insurance (Northwood Hills (09274) 25211)	Barbican
May 24-27	International Word and Information Processing Exhibition and Conference (01-405 6233)	Wembley Conference Centre
June 1	Advertising Business Systems Show (01-637 7438)	Press Centre, EC4
June 3-11	Fine Art and Antiques Fair (01-385 1200)	Olympia
June 6-10	Chemical and Processing Engineering Show—EUROCHEM (01-747 3131)	NEC Birmingham
June 13-16	Shopex International (01-540 1101)	Olympia
June 28-July 1	Security Trades '83 (Redhill (0737) 68611)	NEC Birmingham

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
May 17-19	Europe Software Exhibition (01-486 1951)	Utrecht
May 17-20	Technology/Inpex Exposition (Pittsburgh (412) 642 7589)	Pittsburgh
May 18-June 1	Algiers International Trade Fair (01-221 7800)	Algiers
May 24-27	International Trade Fair for Industrial Cleaning and Maintenance (020 5411411)	Amsterdam
May 27-June 5	Paris Air Show (720.61.09)	Paris
June 8-10	International Telecommunications Congress and Trade Fair—IFCOM (01-930 7251)	Cologne
June 9-12	International Saw Mill Machinery and Forestry Exhibition—ELMIA (0732 850 457)	Jonkoping
June 19-22	Latin American Petroleum Show (01-546 5144)	Venezuela
June 21-24	EUROPIPE '83 and EUROTUNNEL '83 (0727 63213)	Basle
June 22-24	Under Water Technology '83 (01-250 3561)	Amsterdam
June 26-29	National Fancy Food and Confection Show (0483 38085)	Washington
June 27-July 1	Manufacturing and Plant Maintenance Exhibition—PEMEX (01-486 1951)	Johannesburg

BUSINESS AND MANAGEMENT CONFERENCES

May 16	CBI/SMMT: The British motor industry—its potential to generate industrial recovery (01-235 7000)	Grosvenor House
May 17	London Chamber of Commerce and Industry: What the busy manager should know about pensions (01-248 4444)	London Chamber, 69 Cannon Street, EC4
May 17-20	Lloyd's of London Press: Ocean carriers' rights and liabilities (01-247 9461)	Royal Horseguards Hotel
May 17-20	EVAF: Business research for corporate development (01-637 1221)	Hamburg
May 18	Eurofi: European Community finance for commerce and industry (Newbury (0635) 31900)	Plymouth Guildhall
May 18-20	Dataquest: 1983 European semiconductor conference (01-409 1427)	Monte Carlo
May 18-20	Insig: 2nd international seminar—auditing in banking (Paris (1) 763.07.24)	Madrid
May 19	KAE: New business development—what succeeds in practice? (01-637 2261)	Barbican
May 24	Chatham House: Hawke's Australia, chances of economic recovery (01-930 2233)	St. James's Square, SW1
May 24	Industrial Society: Quality circles—keeping the enthusiasm going (01-839 4300)	Carlton House Terrace, SW1
May 24-25	British Franchise Association: Expansion through franchising (Colnbrook (0281) 4900)	Holiday Inn, Swiss Cottage
May 24-26	Institution of Civil Engineers: 7th World Airports Conference (01-222 7722)	Café Royal, W1
May 25	IWP Teletext and the word processor user (01-242 8697)	Wembley Conference Centre
May 26-27	Afinnovac: Venture Capital in the European/French context (Paris (1) 622 2445)	Fontainebleu
June 1	Brighton Polytechnic: Interactive video and computer training (Eastbourne (0323) 21400)	Eastbourne
June 1-2	FT Conference: Vehicle components (01-621 1355)	Geneva
June 2	Institute of Directors: City branch annual conference (01-606 7700)	Press Centre EC4
June 6-7	The Economist: Western arms co-operation—how to make joint procurement work	Portman Square, W1
June 6-10	Management Centre Europe: International negotiations (219.03.90)	Brussels
June 8-9	Manchester Business School: Strategies to reduce unemployment (061-273 8228)	Manchester
June 9-10	Computer Assisted Televideo: Interactive videodisc seminars (01-588 1932)	Kensington Close Hotel, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Closing prices May 13

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	5⅞	AAR	.44	3.1	21	125	14	13⅞	14	+ ¼
37¼	27½	ACF	2.75	7.3	16	213	37¼	36½	37¼	+1½
20	12¼	AMF	.60	3.1		1145	16	15¼	15⅞	+ ¼
30⅞	13¼	AMR Cp				1664	29½	28	28¼	−⅛
16⅞	4	AMR	wt			1623	15⅞	14½	14¾	−⅞
18¼	12⅞	AMR	pf2.18	12.		8	18	17⅞	18	+ ⅛
35	24⅞	AMR	pf2.13	6.4		251	33½	32⅞	33¼	−⅛
8½	2½	APL				154	8½	8⅛	8⅛	
53⅞	28¼	ARA	2.05	3.9	15	571	53	52½	53	+ ½
79⅞	20½	ASA	3a	4.0		845	74⅞	74⅛	74⅞	+ ½
32⅞	13⅞	AVX	.32	1.1	48	57	29½	28¾	29½	+ ½
47½	27⅞	AbtLab	1	2.2	18	848	45⅞	45¼	45⅞	
30⅞	26½	AccoW	n.12e	.4	21	51	27⅞	27⅛	27⅞	−⅛
22⅞	15⅞	AcmeC	.40	1.9		31	21¼	21	21¼	+ ¼
13⅞	5⅞	AcmeE	.32b	2.5	42	53	13⅛	12⅞	12⅞	
18⅞	4⅞	AdmDg	.04	.8	16	80	18⅞	18½	18⅞	−⅛
17⅞	12½	AdaEx	1.73e	10.		22	17⅛	17⅛	17⅛	+ ⅛
12¼	4⅛	AdmMl	.24	2.9	11	17	11⅞	11¾	11⅞	
28	12⅞	Advest	s.16	.6	14	109	27⅞	26⅞	26⅞	+ ¼
48⅞	18	AMD	s		59	976	48⅞	43⅞	45⅛	+2¼
44⅞	32⅞	AetnLf	2.64	6.3	9	1571	42	41½	41⅞	−⅛
55	52⅞	AetL	pf3.70e	6.3		0	59	59	59	+ ½
40½	0	Ahmns	.60	1.6		179	40	39½	39¾	+ ¼
4⅞	2⅞	Aileen				498	4½	4⅛	4⅛	
46⅞	23⅞	AirPrd	.80	1.9	13	376	41¾	41¼	41⅞	+ ¼
28	8⅞	AirbFrt	.60	2.4	26	187	25⅞	25	25⅞	
3	2	AlMoa	n		5	506	3	2⅞	3	
32⅞	24⅞	AlaP	pfA3.92	12.		12	32½	32⅛	32¼	
7½	5⅞	AlaP	dpf.87	12.		39	7½	7⅛	7½	+ ⅛
99½	73½	AlaP	pf 11	11.		z590	u97	95¼	95¼	−¼
21⅞	67	AlaP	pf9.44	12.		z100	80	80	80	−½
69	61	AlaP	pf8.28	12.		z540	68	67½	68	

Continued on Page 25

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices May 13

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
[illegible]										

A–A–A · B–B–B · C–C–C · D–D–D · E–E–E · F–F–F · G–G–G · H–H–H · I–I–I · J–J–J · K–K–K · L–L–L · M–M–M · N–N–N · O–O–O · P–Q

Continued on Page 26

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 24

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
[illegible]										

O–O–O · P–Q · R–R–R · S–S–S · T–T–T · U–U–U · V–V–V · W–W–W

Continued on Page 26

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

Indices

NEW YORK — DOW JONES

	May 12	May 12	May 11	May 10	May 9	May 6	1983 High	1983 Low	Since Cmpil't'n High	Since Cmpil't'n Low
◆ Industr'ls	1218.75	1214.40	1216.72	1229.69	1226.23	1232.59	1232.59 (6/5)	1027.04 (3/1)	1232.59 (6/5/83)	41.22 (2/7/32)
H'me Bnds	77.29	77.58	77.80	77.80	77.78	77.84	77.84 (6/5)	70.78 (6/2)	—	—
Transport	547.89	545.52	547.51	558.75	549.40	552.10	552.10 (6/5)	434.24 (3/1)	552.10 (6/5/83)	12.32 (8/7/32)
Utilities	122.61	129.11	129.55	129.06	129.11	129.11	128.84 (3/5)	119.51 (3/1)	165.32 (20/4/69)	10.5 (28/4/42)
TradingVol 000-†	85,116	84,600	93,820	104,010	23,370	128,290	—	—	—	—

Day's high 1229.04 (1223.59) low 1209.17 (1204.82)

	May 6	April 29	April 22	Year ago (Approx)
Indust'l div. yield %	4.44	4.48	4.60	3.42

STANDARD AND POORS

	May 13	May 12	May 11	May 10	May 9	May 5	1983 High	1983 Low	Since Cmpil'n High	Since Cmpil'n Low
Indust'ls	165.01	164.24	165.84	166.14	166.00	166.37	166.37 (6/5)	134.85 (3/1)	166.37 (6/5/83)	3.62 (30/6/32)
Comp's'te	164.30	164.25	164.86	165.96	165.91	166.10	166.16 (6/5)	138.34 (3/1)	166.16 (6/5/83)	4.40 (1/6/32)

	May 11	Apr. 27	April 20	Year ago (Approx)
‡Indust'l div. yield %	3.95	4.01	4.04	3.52
Indust'l P/E ratio	13.92	13.32	13.73	8.02
Long Gov. Bond yield	10.24	10.53	10.44	12.77

N.Y.S.E. ALL COMMON

May 13	May 12	May 11	May 10	1983 High	1983 Low
95.07	94.35	94.92	93.50	95.80 (18/4)	80.92 (24/1)

Rises and Falls

	May 13	May 12	May 11
Issues Traded	1,990	1,982	2,013
Rises	1,021	701	364
Falls	582	877	994
Unchanged	387	404	355
New Highs	161	146	216
New Lows	2	3	2

MONTREAL

	May 13	May 12	May 11	May 10	1983 High	1983 Low
Industrials	432.48	417.77	415.61	415.34	432.48 (13/5)	331.15 (4/1)
Combined	426.57	403.25	406.98	407.05	407.05 (10/5)	335.13 (4/1)
TORONTO Composite	2448.90	2422.1	2451.7	2457.7	2457.7 (5/5)	1942.8 (4/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Greyhound	1,825,300	22¼	—	Chrysler	816,400	27⅞	+2¼
Eastman Kodak	1,131,500	74⅞	−¾	Schlumberger	785,300	43⅞	+⅞
ATT	1,054,400	67⅞	−⅜	Archer-Daniels	745,300	27¾	+¼
Monsanto	995,200	[illegible]	[illegible]	Pessco	743,700	37⅞	−1½
Duke Power	943,500	23⅝	−¼	Warner-Lambert	719,700	31	−1

WORLD INDICES

	May 13	May 12	May 11	May 10	1983 High	1983 Low
AUSTRALIA						
All Ord. (1/1/80)	614.5	619.4	618.9	607.4	611.4 (12/5)	487.5 (4/1)
Metals & Minls. (1/1/80)	546.8	555.7	556.8	547.0	559.3 (11/5)	411.3 (4/1)
AUSTRIA						
Credit Aktien (2/1/62)	58.58	(c)	58.59	58.92	59.3 (5/5)	46.49 (15/2)
BELGIUM						
Belgian SE (31/12/63)	(c)	(c)	122.59	122.01	122.96 (28/4)	100.58 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	143.75	(c)	144.50	144.07	144.50 (11/5)	100.00 (3/1)
FRANCE						
CAC General (31/12/82)	125.50	(c)	125.5	124.8	125.5 (13/5)	96.1 (3/1)
Ind Tendance (31/12/82)	130.40	(c)	129.9	8.8	130.4 (13/5)	98.0 (3/1)
GERMANY						
FAZ-Aktien (31/12/58)	311.03	(c)	311.13	312.17	321.64 (28/4)	241.63 (25/1)
Commerzbank(Dec1953)	981.50	(c)	951.7	955.4	965.6 (27/4)	727.3 (25/1)
HONG KONG						
Hang Seng Bank (31/7/64)	949.58	952.66	943.62	946.32	1067.39 (14/4)	781.81 (4/1)
ITALY						
Banca Comm Ital.(1972)	168.65	191.27	161.19	163.80	214.95 (21/3)	160.45 (10/1)
JAPAN**						
Dow Average (16/5/49)	8629.51	8655.90	8681.58	8667.99	8718.88 (9/5)	7803.16 (25/1)
Tokyo New SE (4/1/68)	638.58	631.40	654.07	654.45	657.70 (9/5)	574.51 (25/1)
NETHERLANDS						
ANP-CBS General (1970)	128.8	(c)	127.7	127.1	131.0 (12/4)	100.1 (4/1)
ANP CBS Indust (1970)	106.4	(c)	106.2	106.7	108.3 (12/4)	83.5 (4/1)
NORWAY						
Oslo SE (4/1/83)	161.75	(c)	191.06	193.61	191.75 (18/5)	99.01 (4/1)
SINGAPORE						
Straits Times (1966)	960.42	960.18	958.42	956.63	966.42 (13/5)	712.28 (5/1)
SOUTH AFRICA						
Gold (1958)	959.1	(c)	975.0	951.8	1036.5 (1/1)	694.7 (28/3)
Industrial (1958)	928.1	(c)	923.7	916.7	940.5 (22/4)	740.8 (6/1)
SPAIN						
Madrid SE (31/12/82)	118.32	118.58	115.60	118.68	118.08 (15/4)	98.32 (13/1)
SWEDEN						
Jacobson & P. (1/1/58)	(c)	(c)	1508.77	1507.18	1507.18 (10/5)	898.16 (3/1)
SWITZERLAND						
SwissBankCpn.(31/12/58)	325.6	(c)	327.7	328.5	330.4 (2/5)	264.4 (4/1)
WORLD						
Capital Intl. (1/1/70)	—	178.1	178.3	179.1	175.5 (8/5)	154.8 (6/1)

(**) Saturday May 7: Japan Dow 8688.77. TSE 635.07.

Base values of all indices are 100 except Australia All Ordinary and Metals—500, NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 industrials. § 400 industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

CANADA

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

AUSTRALIA

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SPAIN

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued on Page 25

[illegible]

NEW YORK CLOSING PRICES

Continued from Page 25

[illegible]

graph option. As a quid proquo would be increased. "Any talk" A fourth option is to design increase are made...

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Home Counties Newspapers, 75, Castle Street, Luton, Bedfordshire. 12.30
IMI, Midland Hotel, New Street, Birmingham. 12.00
Municipal Properties, Gilbert House, River Walk, Tonbridge, Kent. 11.30

BOARD MEETINGS—
Finals:
Ex-Lands
Extel
Foster (John)
Geers Gross
Gold and Base Metal Mines
Small (John C.) and Tidmas
Warrington (Thomas)
Weeks Associates
Interims:
Anglo American Coal Corp.
Bellway
Brown (Matthew)
Grand Metropolitan
Radio City (Sound of Merseyside)
United Scientific

DIVIDEND & INTEREST PAYMENTS—
Aberdeen Corp 3pcRed 1965-85 1½pc
Algemene Bank Nederland NV Fl 6.25
Amalgamated Distilled Products 1p
American Tst 1.35p
Beazer (C.H.) (Hldgs) 3p
British Empire Sec and Gen Tst 0.2p
Campari Intnl 1p
Dufay Bitumastic 1.6p
Edinburgh American Assets Tst 5pcRedDb 1959 or after 2½pc
European Asian Cap BY Gtd Fltg Rate Nts 1992 $511.88
Futura Hldgs 2.25p
Good Relations Grp 2.1p
Hapoalim Intnl NV Gtd Fltg Rate Nts 1984 $815.03
Investors Capital Tst 4pcDbRed 2pc
Laing Props 3p
Lex Service 5p
London and Manchester Grp 9.31p
Lucas Inds E.6p
Manders (Hldgs) 4.6p
Memec (Memory and Electronic Components) 2.2p
Metal Closures Grp 3.5p
Minerals and Resources Corp 3.87896p
Morgan (J.P.) Int Finance NY Gtd Fltg Rate Nts 1997 $240.14
Meridian Props 9.07p
Ransomes Sims and Jefferies 8.86p
Scottish Eastern Inv 7st 4pcPerpDb 2pc. Do 4pcDbRed 2pc. Do 5½pcRedDb 1978-1984 2¾pc
Silkolene Lubricants 5p
Sperry Corp 48cts
Stockholders Far East Inv Inc 1ct
TR Ind and Gen Tst 3½pcDbRed 1¾pc
Warner Communications Inc 25cts

TOMORROW

COMPANY MEETINGS—
BTR, Connaught Rooms, 15, Great Queen Street, WC. 12.00
British Aerospace, Royal Aeronautical Society, 4, Hamilton Place, W. 3.00
BL, Cafe Royal, 68, Regent Street, W. 11.30
Bruzl, The Brewery, Whitbread's, Chiswell Street, EC. 11.30
Fisons, Centre Point, 103, New Oxford Street, W. 11.00
Kleinwort Benson Lonsdale, 20, Fenchurch Street, EC. 11.45
Lambert Howarth Grp, Keirby Hotel, Burnley. 12.00
Macfarlane Grp (Clansman), Merchants House, 7, West George Street, Glasgow. 12.00
Rowntree Mackintosh, Joseph Rowntree Theatre, Haxby Road, York. 3.00
Royal Worcester, Brown's Hotel, Dover Street, W. 12.00
Trade Indemnity, Trade Indemnity House, 12-34, Great Eastern Street, EC. 12.00
U.S. Debenture Corp, Austral House, Basinghall Avenue, EC. 12.00
Westminster Property Group, Great Eastern Hotel, Liverpool Street, EC. 11.30

BOARD MEETINGS—
Finals:
Gieves
Hinton (Amos)
London and Lennox Inv Tst
Mersey Docks and Harbour
Runciman (Walter)
Whitbread
Interims:
Allied London Properties
Borthwick (Thomas)
Melodie Invs
Pentland Inv Tst
Wearwell

DIVIDEND & INTEREST PAYMENTS—
Banco Nacional De Mexico SA Fltg Rate Cap Nts 1987 $53.11
Commercial Union Assce 6.95p
Court ..., Pope (Hldgs) 1.6p
Lunuva (Ceylon) Tea and Rubber Estates 27p
Sirdar 1.85p
Trade Indemnity 4.7775p
Treasury 9pcLn 1994 4½pc
Waring and Gillow (Hldgs) 0.75p

WEDNESDAY MAY 18

COMPANY MEETINGS—
Bardsey, Brittannia Hotel, Grosvenor Square, W. 12.00
Bridon, Chartered Accountants' Hall, Moorgate Place, EC. 12.00
British Mohair Spinners, Victoria Hotel, Bridge Street, Bradford. 12.00
Cape Inds, Hyde Park Hotel, Knightsbridge, SW. 12.00
Christies Intnl, 8, King Street, St James's, SW. 3.00
Equity and Law Life Assce Society, 20, Lincoln's Inn Fields, WC. 12.15
Expamet Intnl, Institute of Directors, 116, Pall Mall, SW. 12.00
Jones and Shipman, Harborough Road South, Leicester, 2.15
Legal and General Grp, Temple Court, 11, Queen Victoria Street, EC. 2.30
NMW Computers, Stapeley House, London Road, Nantwich, Cheshire. 12.00
Planet Grp, Excelsior Hotel, Birmingham Airport, Birmingham. 12.00
Slough Estates, Savoy Hotel, Strand, WC. 2.30
Spirax-Sarco Engineering, Queen's Hotel, Cheltenham. 3.00
Sun Alliance and London Insurance, 1, Bartholomew Lane, EC. 12.30
Unilever, Baltic Exchange, 14-20, St Mary Axe, EC. 11.00

BOARD MEETINGS—
Finals:
Advance Services
Ambrose Inv Tst
British-Borneo Petroleum Syndicate
Chamberlin and Hill
Hartwells
Mettoy
Usher-Walker
Interims:
Canvermoor
Irish Distillers
NSS Newsagents
Northern Industrial Improvement Tst

DIVIDEND & INTEREST PAYMENTS—
Alfa-Laval AB 0 SKr 10
Banco Pinto and Sotto Mayor Fltg Rate Nts 1985 $271.81
Co-operative Bank Fltg Rate Cap Nts 1986 $54.36
Corah 2p
First Chicago Overseas Finance Gtd Fltg Rate Sub Nts 1994 $233.32
Lambert Howarth Grp 4.25p
Leumi Intnl Invs NV Gtd Fltg Rate Nts 1985 $54.36
London and Scottish Marine Oil 6.5p
Macfarlane Grp (Clansman) 2p
Manson Finance Tst 0.5p
Minerals Oils and Res Shs Fund Inc 20cts
Oesterreichische Kontrollbank AG Gtd Fltg Rate Nts 1986 $266.67
Royal Worcester 8.7p
Standard Chartered Finance Gtd Fltg Rate Nts 1991 $537.34

THURSDAY MAY 19

COMPANY MEETINGS—
Ash and Lacy, Botanical Gardens, Westbourne Road, Edgbaston, Birmingham. 12.00
BICC, Centre Point, 103, New Oxford Street, WC. 12.00
Britannia Arrow Hldgs, Ironmongers' Hall, Aldersgate Street, EC. 12.00
Collins (William), Westerhill Road, Bishopbriggs, Glasgow. 11.00
DRG, 1, Redcliffe Street, Bristol. 12.00
Delta Grp, Waldorf Hotel, Aldwych, WC. 12.00
Harrison Cowley (Hldgs), 32, Queen Square, Bristol. 12.00
Johnson Group Cleaners, Adelphi Hotel, Liverpool. 2.00
London Brick, Connaught Rooms, 15, Great Queen Street, WC. 12.00
Metalrax Group, Plough and Harrow Hotel, Hagley Road, Edgbaston, Birmingham. 11.45
Hu-Swift Inds, Queen's Hotel, Leeds. 12.00
Pritchard Services Grp, Dorchester Hotel, Park Lane, W. 12.00
Reckitt and Colman, Connaught Rooms, 15, Great Queen Street, WC. 11.00
Robinson (Thomas) and Son, Railway Works, Rochdale. 12.00
Sharpe and Fisher, Pittville Pump Room, Evesham Road, Cheltenham. 12.00
Shell Transport and Trading Co., Shell Centre, Belvedere Road, SE. 11.30
Yosper, Dorchester Hotel, Park Lane, W. 12.00
William Morrison Supermarkets, Hilmore House, Thornton Road, Bradford, West Yorkshire. 11.00

BOARD MEETINGS—
Finals:
Heath (C.E.)
Land Securities
London Atlantic Inv Tst
London Tst
Ropner
Salincourt
TR Natural Resources Inv Tst
Whitbread
Interims:
Construction Hldgs
Higsons
Polly Peck
Redman Heenan Intnl
Stenhouse

DIVIDEND & INTEREST PAYMENTS—
Berry Pacific (Sterling) Fund Ptg RedPf 6p
Bridon 1.9p
British Petroleum 14p
Cass Grp 2.5p
Deutsche Bank AG DM 11
Emess Lighting 3.25p
Jones and Shipman 0.5p
Newman-Tonks Grp 1.68p
Sandvik Aktiebolag Ser 0 SKr 10
Systems Designers Intnl 1.5p
Treasury 10½pc 1999 5¼pc
Treasury 3pc 1966 1½pc
Yorkshire Chemicals 1p

FRIDAY MAY 20

COMPANY MEETINGS—
Arncliffe Hldgs, Hepworth House, Claypit Lane, Leeds. 12.00
Bambers Stores, Barbican City Hotel, Central Street, EC. 12.00
Bramall (C.D.), Norfolk Gardens Hotel, Hall Ings, Bradford. 12.00
Clifford's Dairies, Balcony Restaurant, Grandstand, Ascot, Berkshire. 11.30
Fisher (John), Adelphi Hotel, Liverpool. 12.00
Gibbs and Dandy, Commerce House, Stuart Street, Luton. 11.30
Grampian Hldgs, Stag House, Castlebank Street, Glasgow. 12.00
Lec Refrigeration, Shripney Works, Bognor Regis. 11.30
Reed Executive, Castle Hotel, High Street, Windsor, Berkshire. 2.00
Sharna Wax, Midland Hotel, Peter Street, Manchester. 12.30
Utd Ceramic Distributors, Lyttelton Arms Hotel, Hagley, Stourbridge, West Midlands. 12.00

BOARD MEETINGS—
Finals:
Courtaulds
Debenhams
Goldberg (A.)
International Paint
Suter
Interims:
Management Agency and Music

DIVIDEND & INTEREST PAYMENTS—
Arncliffe Hldgs 1.54p
BTR 5.25p
Bambers Stores 0.25p
Birmingham District Council 18½pc 1989 6¼pc
Caterpillar Tractor Co 37.5cts
Clay (Richard) 2p
Clifford's Dairies 3.6p. Do A Non-Vtg 3.6p
Collins (William) 5.5p. Do A Non-Vtg 5.5p
Combined Intnl Corp 50cts
Dowding and Mills 0.88p
Duncan (Walter) and Goodricke 12p
Exchequer 12pc 1998 6pc
Gibbs and Dandy 1.4p. Do Non-Vtg A 1.4p
Great Northern Telegraph Co DKr 21.0
Home Counties Newspapers 3.25p
Ibstock Johnsen 3p
Jamesons Chocolates 3p
Lec Refrigeration 6.25p
Lloydtrust Gilt Fund Ptg RedPf 31p
London and Strathclyde Tst 0.85p
Merchants Tst 2.8150
Metalrax Grp 1.6p
Moben Grp 0.25p
Murray Clydesdale Inv Tst 0.6p
NMW Computers 4p
Norfolk Capital Grp 0.2p
Park Place Invs 2p
Royal Insurance 16.8p
Security Pacific Corp 56cts
Standard Chartered Bank 17.8p
Treasury 2½pc I-L 2003 £1.4582
Treasury 2½pc I-L 2009 £1.5161
U.S. Debenture Corp 4.27p
Wade Potteries 0.55p
Walker (Thomas) 0.1675p

SATURDAY MAY 21

DIVIDEND & INTEREST PAYMENTS—
Agricultural Mortgage Corp 5pcDb 1979-1983 2½pc
Grampian Hldgs 3p
Treasury 12½pc 2003-05 9¼pc
Treasury 3pc 1965 1½pc

SUNDAY MAY 22

DIVIDEND & INTEREST PAYMENTS—
Exchequer 14pc 1984 7pc
Exchequer 13½pc 1985 6¾pc
Exchequer 12¼pc 1985 9⅛pc
Nationwide Building Soc 9⅞pcBds 28/11/83 4[15/16]pc
Treasury 14pc 1998-2001 7pc

CONTRACTS

Boskalis wins £12m orders

BOSKALIS WESTMINSTER CONSTRUCTION has been awarded the following contracts: a hospital contract, worth £1.9m for the North Western Regional Health Authority; 42 flats for the elderly worth £1.3m for Merseyside Improved Houses. Three other contracts are together worth over £1m; at Chorlton-cum-Hardy, near Manchester, 39 sheltered units with warden's accommodation for the Anchor Housing Association; at Devonshire Road, Liverpool, a four-storey hostel plus warden's accommodation for the Princes Park Housing Co-operative; at Paisley, Scotland, the former EU Congregational Church in New Street will be refurbished externally, re-roofed and converted into an arts' centre; a £7.7m contract to build 42 kilometres of 42 inch diameter gas pipeline between the Lancashire towns of Garstang and Skelmersdale has been awarded to NACAP of Doncaster, a subsidiary of Boskalis Westminster, by the British Gas Corporation.

*

Following the award of a £1.3m contract for the Kuwait warehouse project, BOSTWICK, the Stockport-based industrial door manufacturer, has won another Kuwait order, this time worth £250,000 for the Al Muthanna residential and commercial complex under construction in Kuwait City.

*

TILCON, a member of the Thomas Tilling Group, has announced orders to the value of £1.2m to supply a range of construction materials, including sand and gravel, ready mixed concrete, mortar and black top. The materials are being used in a number of large projects throughout the UK including: laying a mastic asphalt wearing course on the Forth Road Bridge; ready mixed concrete for the A63 South Docks Road in Hull for A. Monk and Co; and the laying and supply of black top material for the M65 between Hyndburn and Huncoat for main contractors, Cementation.

*

Orders worth about £1m for timber framed accommodation have been received by MINOX (RTE) in the four months following its formation. Projects include a new school at Oxford, hotels and a number of housing projects.

*

BUPA Hospitals has awarded BOVIS CONSTRUCTION a £3.75m contract to design, manage and construct a 51-bedded hospital at Havant, Portsmouth. Work has started and the building will be handed over in the summer of 1984. In addition to the 51 single-bed units, the hospital will have a four-bedded day-care area. There will also be two operating theatre suites with supporting facilities. There will be four out-patient consulting rooms and radiology, pathology and physiotherapy departments. A restaurant will be provided for use by visitors, consultants and staff.

*

Brunel House, a grade two listed building in Bristol city centre, is being given a new lease of life. FAIRCLOUGH BUILDING is carrying out redevelopment behind the classical facade which Isambard Kingdom Brunel helped design. It is being turned into a new office complex. About 80,000 sq ft of offices are being built under a £3.7m contract for the Co-operative Insurance Society. Work is scheduled for completion in November. The company has won building and modernisation contracts on Tyneside, worth £1.2m. Under the biggest, worth £820,000, Fairclough will modernise 97 council houses in Chipchase Crescent, Newcastle-upon-Tyne. This includes new kitchens, bathrooms, central heating and improved insulation.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

[illegible]

INSURANCES

[illegible]

Crown Unit Trust Services Ltd,
Crown Life Hse, Woking GU21 1XW 04862 24933

Crown High Inc. Trust	114.1	122.7	-0.8	6.54
Crown Growth Trust	109.5	117.7	-1.0	4.45

Dartington Unit Trust Mngt. Ltd.
Dartington, Totnes, Devon TQ9 6JE 0803 862271

Total Perf Unit Tst	28.2	31.6		5.22

Discretionary Unit Fund Managers
36/38 New Broad St, EC2M 1NU. 01-638 4485

Disc Inc May 6	338.9	361.4		3.99

For Dunbar see Oppenheimer Fund Management

Bridge Fund Managers (a)(e)
Regis Hse, King William St, EC4 01-623 4951

Amer Gen †	59.9	64.5		0.99
Income*	72.1	77.6		5.72
Capital Inc $	82.7	89.0		2.20
Do. Acc.$	103.2	111.0		2.20
Exempt‡	178.0	192.0		3.64
Intl Recovery Inc ‡	35.7	38.4		2.22
Do. Acc.$	46.1	49.6		2.22

Dealing *Tues. †Wed. ‡Thur. Prices May 10/11/12

Guardian Royal Ex. Unit Mgrs. Ltd.
Royal Exchange, EC3V 3LS 01-638 2020
Continued above Mon-Fri and Stock Exchange Dealing Page Sat.

Offshore and Overseas—continued

Actibonds Investment Fund SA
57, rue Notre Dame Luxembrg. Tel. 47971

Actibonds Inv	$20.04			—

Bamford Brandt Guernsey Mngt Ltd
PO Box 71, St Peter Port, Guernsey 0481 20541

Tech & Commn	—	£10.00		—

CAL Investments (IoM) Ltd
10 St Georges St Douglas IoM. 0824 25031

CAL CM&C	0.924	0.073		—
CAL Metals	0.907	0.955		

Dealing days every Monday.

CAL Investments (Bermuda) Limited
PO Box 1022, Hamilton, Bermuda. 1000-291 5-5050

CAL CT9 Fd	0.08	1.05		—

Dealing days every Monday

Commodity Advisory Svcs (IoM) Ltd
48 Athol St, Douglas, IoM. 0024-20845

Comm&FFFd(Acc)	90.75	102.07		—
Com&FFFd(Dist)	98.75	102.07		—

Next dealing date May 16.

DunVest Ltd
PO Box 887, Grand Cayman

NAV May 1	$120.00			—

Framlington Overseas Fd Mngt Ltd
PO Box 71, St Peter Port, Guernsey. 0481 26541

O'seasInc&Gth	—	50.0		—

Manufacturers Hanover Geofunds
PO Box 82 St Peter Port, Guernsey. 0481 23961

LA Inc	$105.26	105.40	+0.19	9.34
LA Acc	$121.19	121.48	+0.21	13.83
MI 7 Inc	$118.96	119.50	+1.57	6.02
MI T Acc	$131.10	131.08	+1.78	22.87

Marine Midland (CI) Ltd
140 B'way, NY 10015, USA 212-440-1000
Queens Hse, Don Rd, St Helier. 0534 71400

Intcurcy	$1.080 0			—

Initial offer. Next sub day June 18.

Norcap Fund Managers (Bermuda) Ltd
Bank of Bermuda Bldg, Bermuda. 809 29 5400

Amer Tst	$11.91	12.30	...	—

Perpetual UT Managers (Jersey) Ltd
PO Box 450, St Helier, Jersey. 0554 74517

Offshr Grth	$1 006	1 155	...	—

Rothschild Asset Management (CI)
St Julian's Ct, St Peter Port, Guernsey. 0481 28741

OC International Reserves Ltd

Bel Francs	BFr030.25	+0.20	8.90
Canadian $	C$30.035	+0.005	7.90
D-Mark	DM50.275	+0.005	3.70
Dutch Guilder	Fls49.795	+0.005	4.10
French Franc	FFr150.255	+0.045	11.05
Italian Lire	L35 500	+12	13.11
Japanese Yen	Y0 180.02	+0.89	5.13
Singapore $	S$82.01	+0.01	7.19
£ Sterling	£14 011	+0.008	0.40
Swiss Francs	SwFr45.410	+0.004	5.08
U S $	$28.72	+0.005	7.98

Daily dealings.
For other Rothschild Offshore Funds see Offshore and Overseas section.

SCI/Tech SA Nav
2 Boulevard Royal Luxembourg.

SCI Tst Nav	—	$0.45	-0.02	—

Schroder Mngt Services (Jersey) Ltd
PO Box 198 St Helier, Jersey. 0534 27561
Schroder Money Funds Ltd

Sterling	£13.0773	....	—
U S. Dollar	$28.8255	....	—
D-Mark	DM50.0273	....	—
Swiss Franc	SwFr50.3601	....	—

Tyndall-Guardian Management Ltd
PO Box 1250 Hamilton Bermuda.

T-G Am	$24.23	—	...	—
T-G Money	$20.00	—	...	—
T-G E Bond	$16.10	—	...	—
T-G Com	$21.94	—	...	—
T-G Mort	C$19.21	—	...	—
T-G O'seas	$12.02	—	...	—
T-G Pacific	Y1,072	—	...	—
T-G Wall St	$24.90	—	...	—

Insurances—continued

Albany Life Assurance Co Ltd
3 Darkes Lane, Potters Bar. 0707 42311
Pension Funds

EqPenFdAc	555.3	584.5	-1.8	—
Fix I Pen Ac	397.8	418.7	-0.6	—
GtMixPenAc	237.8	250.5	+0.1	—
IntMnPenAc	255.4	245.0	-0.1	—
N AmPFdAc	125.8	132.1	-1.1	—
Prop Pen Ac	213.d	224.0	+0.1	—
Mpl InPnAc	475.3	500.3	-0.9	—

Commercial Union Group
St Helens, 1 Undershaft, EC3. 01-283 7500

VarblAcMay14	—	155.01	-3.86	—
An Uts May 20	—	31.50	-1.03	—

Prime Series

Managed	105.0	110.8	-0.1	—
UK Equity	106.0	111.0	-0.4	—
Int Equity	105.7	111.3	+0.5	—
Property	07.3	102.5		—
Fixed Int	101.4	100.8	-0.4	—
Indx Lnkd Gt	93.0	07.9	....	—
Cash	08.0	101.7	...	—

Bond-In-Hand

Cash	118.2	124.5	...	—
Fixed Int	135.2	142.4	...	—
Property	155.0	145.1	...	—
NatWest	172.0	101.7	...	

Continental Life Insurance PLC
64/70 High St, Croydon, CR0 9XN. 01-080 5225

Equity Acc	130.0	137.5	....	—
Proply Acc	127.8	134.0	....	—
Intl Acc	141.7	149.2	....	—
Managd Acc	137.1	144.4	....	—
PensEqtyAcc	181.3	159.3	....	—
PensPrpAcc	138.2	145.5	....	—
PensIntlAcc	132.1	139.1	....	—
PensMgdAcc	143.0	151.8	....	—

Gilt Deposit, Index Fund prices available on request.

Friends' Provident Life Office
Pixham End, Dorking. (0306) 805055
Life Funds

Cash Accum	90.0	100.0	...	—
UK Eqty Acc	94.1	99.1	-0.2	—
Fnd Int Acc	95.1	100.2	-0.0	—
Indx Lkd Acc	93.0	100.1	+0.1	—
Mnd Acc	94.3	99.2	-0.1	—
Overs'Eq Ac	94.0	99.0	-0.5	—
Propty Acc	93.0	100.0	...	—

Pension Funds

Cash Capital	93.0	100.0	...	—
Cash Accum	95.0	100.0	...	—
UK Eqty Captl	94.1	99.1	-0.2	—
UK Eqty Acc	94.1	99.1	-0.2	—
Fxd Int Captl	94.0	99.0	-0.3	—
Fxd Int Acc	94.0	99.0	-0.3	—
Indx Lkd Captl	95.0	100.0	....	—
Indx Lkd Acc	93.0	100.0	....	—
Mixed Captl	94.1	99.1	-0.5	—
Mixed Acc	94.1	99.1	-0.5	—
O'seasEq Cap	93.1	90.0	-0.7	—
O'seasEqAcc	93.1	08.0	-0.7	—
Propty Captl	95.0	100.0	...	—
Propty Acc	95.0	100.0	...	—

Guardian Royal Exchange
Royal Exchange, EC3. 01-283 7107
GRE Pensions Management Ltd

PensPropInt	127.3	134.0	....	—
PensPrpAcc	130.7	143.9	....	—
PnsIntLkGtIn	94.7	99.7	....	—
PxsIntLkGtAc	94.0	99.8	....	—
PensDepInt	133.2	140.2	....	—
Pens Dep Ac	143.1	180.6	....	—

Henderson Administration

[illegible]

Deposit	114.8	120.0	..	—
Prime Rest	110.2	118.1		—

Pension Funds

UK Equity	06.0	101.0	.	—
Fixed Int	103.2	108.7	-0.0	—
Spec Sits	112.8	118.8	-0.1	—
N America	108.2	115.0	-0.3	—
Far East	106.4	112.0	+0.0	—
Managed	104.0	110.2	...	—
Comm Propy	99.5	101.5	....	—
Prime Rest	06.5	101.5	..	—
Deposit	98.5	101.5	..	—

Capital Unit prices available on request.

London Life Linked Assn Ltd
100 Temple St, Bristol BS1 6EA. 0272-279170

Equity	205.0	212.0	....	—
Fixed Int	150.0	150.7	....	—
Property	101.0	188.7	....	—
Deposit	158.0	138.0	....	—
Mixed	100.3	184.0	....	—
Index Stk	112.0	112.5	....	—
International	104.0	105.0	....	—

London Life Managed Funds Ltd

Equity (P)	147.2	152.3	....	—
Fixed Int (P)	100.2	101.4	....	—
Property (P)	117.2	121.3	....	—
Deposit (P)	117.3	117.3	....	—
Mixed (P)	142.0	145.0	....	—
Indx Stk (P)	118.0	110.0	....	—
Interntl (P)	102.2	104.2	. .	—

Municipal Life Assurance Ltd
99-100 Sandling Road, Maidstone. 062 2679351

Managed Fd	95.00	100.00	...	—

Premium Life Assurance Co Ltd
Eastchester House, Haywards Heath. 0444 450721

Nat.Res'ces	111.0	117.0	+4.0	—
Property	138.0	142.0		—
UK Equity	129.0	130.0	-2.0	—
Intl Equity	120.0	127.0	+2.0	—

Prudential Pensions Ltd
Holborn Bars, EC1 2NH. 01-405 9222
Pru-Link Retirement Plan

Managed Fd	136.0	142.3	....	—
Cash Fund	109.2	113.0	....	—

Save & Prosper Group
4 Gt St Helens, London EC3P 3EP. 0708-66966

Gilt Fun Fd	177.9	180.5	-0.9	—
Dep Pen Fd†	180.2	190.7	...	—
Gl Eq Pen Fd	03.2	50.4	-0.3	—

Skandia Life Assurance Co Ltd
Frobisher Hse, Southampton. 0703-354411

Managed	146.0	154.3	....	—
Equity	155.0	164.0	+0.2	—
Internatnl	166.0	177.7	-0.1	—
Nth Amer	104.5	110.0	-0.2	—
Gilt Plus	135.7	142.0	-0.1	—
Property	120.5	152.9	+0.1	—
Deposit	120.5	135.5	+0.1	—
Pens Mangd	172.9	182.0	+0.1	—
Pens Equity	180.7	180.2	+0.4	—
Pens Intnl	199.9	210.8	. .	—
PensGtPls	181.3	109.8	-0.1	—
Pens Propty	151.0	159.0	+0.1	—
Pens Dep	154.9	105.0	+0.2	—

For prices of Capital Units and Guaranteed Basis Rates please phone 0703 334411.

Target Life Assurance Co Ltd
Target House, Gatehouse Road, Aylesbury Bucks. Aylesbury (0296) 5941.

[illegible]

Authorised Units—continued

[illegible]

graph option. As a *quid proquo* would be increased. "Any talk A fourth option is to design [illegible]

INSURANCE & OVERSEAS MANAGED FUNDS

OFFSHORE AND OVERSEAS

NOTES

FT LONDON SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH AND AFRICAN LOANS

LOANS

Public Board and Ind.

LOANS—Continued

Financial

Building Societies

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS, H.P. & LEASING

BANKS—Continued

Hire Purchase, Leasing, etc.

BEERS, WINES AND SPIRITS

BUILDING INDUSTRY, TIMBER AND ROADS

CHEMICALS, PLASTICS

CHEMICALS, PLASTICS—Cont.

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS—Continued.

ENGINEERING MACHINE TOOLS

FOOD, GROCERIES, ETC.

FOOD, GROCERIES—Cont.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

graph option. As a *quid proquo* would be increased. "Any talk . A fourth option is to design increase

INDUSTRIALS—Continued

LEISURE—Continued

PROPERTY—Continued

INVESTMENT TRUSTS—Cont.

OIL AND GAS—Continued

MINES—Continued

Central African

Australians

Tins

Miscellaneous

—		Admiral Mines	140					
—		♥Anglo-Dominion	60					
—		♥Anglo Utd. Dev.	79					
		♥Colby Res Corp.	97					
Aug.	Feb.	Cons. Murch. 10c.	440	23.12	†Q60c	1.9		‡
		‡‡Explaura Gold	3	—	—			
—		♥Highwood Res.	125		—			—
		Homestake Mining $1	£19¼	—	Q40c			1.4
—		Northgate C$1	415	9.77	—			
Jan.	July	R.T.Z.	578xd	9.5	16.0		1.9	4.0
Jan	July	Do.9%Cv.Ln.95.2000	£125xd	9.5	Q9½%	21.4		17.6
—		♥Sabina Inds. C$1	155					
	May	‡Southwest Res 10p.	18½	13.12				
—		♥Tara Exptn $1	600					

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK Listed; dealings permitted under Rule 163(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 163(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend: cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1983-84. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or other official estimates for 1982-83. M Dividend and yield based on prospectus or other official estimates for 1983. N Dividend and yield based on prospectus or other official estimates for 1982-83. P Figures based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Finance

Diamond and Platinum

OVERSEAS TRADERS

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING ADVERTISING

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

Finance, Land, etc

OIL AND GAS

INSURANCE

LEISURE

REGIONAL AND IRISH STOCKS

The following is a selection of regional and Irish stocks, the latter being quoted in Irish currency

				IRISH		
Albany Inv. 20p	56			Exch. 15pc 1983	£100	
Bdg'wtr. Est. 50p	260			Nat. 9¾% 84/89	£87½	
Craig & Rose £1	£12			Fin. 13% 97/02	£97	
Finlay Pkg. 5p	36			Alliance Gas	103	
Graig Ship. £1	£21			Arnott	200	
Higsons Brew	107			Carroll (P.J.)	107	
Holt (Jos) 25p	910			Concrete Prods.	52	
I.O.M. Stm. £1	102	+2		Helton (Hldgs.)	16	
Pearce (C. H.)	£14			Irish Ropes	31	
Peel Hldgs.	200			Jacob	72	
				T M G	70	
				Unidare	73	

OPTIONS

3-month Call Rates

"Recent Issues" and "Rights" Page 16

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £700 per annum for each security

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar mixed in uncertain trading

BY COLIN MILLHAM

The dollar showed mixed changes in quiet foreign exchange trading last week. U.S. economic statistics cast a shadow on earlier hopes of a reduction in the Federal Reserve discount rate, largely as a result of signs of strong growth in the U.S. economy. Figures on retail sales, and consumer credit were followed by a rise of 2.1 per cent in April industrial production. Market expectations were in line with the increase of 1.2 per cent in March, but the strong rise led to fears that the Federal Reserve would keep a firm rein on monetary growth in the next few months, and probably not allow a reduction in the discount rate ahead of the Williamsburg Summit.

The dollar rose to DM 2.4440 from DM 2.4415 against the D-mark; and was unchanged at FFr 7.36, against the French franc; but fell to SwFr 2.0240 from SwFr 2.0530, against the Swiss franc; and to Y231.90 from Y234.75 in terms of the Japanese yen.

Sterling was rather erratic, but lost ground overall on nervousness about the general election. The consistent large lead of the Conservative Party in the opinion polls helped to underpin the pound, but the currency looks vulnerable to any increase in support for Labour during the next few weeks. It fell to $1.5670 from $1.5780; to DM 3.8325 from DM 3.8550; to FFr 11.5325 from FFr 11.6150; and to SwFr 3.1750 from SwFr 3.2425.

The Japanese yen was not only firm against the dollar, but European currencies including the D-mark. This led to renewed calls for a cut in the Bank of Japan discount rate, but could in turn produce criticism from the U.S. and Europe if lower Japanese interest rates result in another decline of the yen.

European currencies were very quiet, and there was little movement among members of the European Monetary System. The D-mark is still at the bottom of the system, while the French franc traded comfortably, despite further signs of political unrest in Paris.

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU May 13	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.3662	45.1649	+1.80	+0.87	±1.5430
Danish Krone	8.04412	8.04999	+0.07	−1.06	±1.6418
German D-Mark	2.21515	2.26083	+2.06	+0.93	±1.0567
French Franc	6.79271	6.80644	+0.23	−0.90	±1.4018
Dutch Guilder	2.49587	2.54497	+1.97	+0.84	±1.4941
Irish Punt	0.71705	0.715836	−0.17	−1.30	±1.5696
Italian Lira	1386.78	1347.00	−2.86	−2.86	±4.1463

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

OTHER CURRENCIES

May 13	£	$		£ Note Rates
Argentina Peso	[illegible]	[illegible]	Austria	26.80-27.15
Australia Dollar	[illegible]	[illegible]	Belgium	76.40-77.15
Brazil Cruzeiro	[illegible]	[illegible]	Denmark	13.09-13.75
Finland Markka	[illegible]	[illegible]	France	11.46-11.56
Greek Drachma	[illegible]	[illegible]	Germany	3.81¼-3.80½
Hong Kong Dollar	[illegible]	[illegible]	Italy	2200-2285
Iran Rial	[illegible]	[illegible]	Japan	364-369
Kuwait Dinar (KD)	[illegible]	[illegible]	Netherlands	[illegible]
Luxembourg Fr.	[illegible]	[illegible]	Norway	11.09-11.19
Malaysia Dollar	[illegible]	[illegible]	Portugal	147-170
New Zealand Dlr.	[illegible]	[illegible]	Spain	202½-217½
Saudi Arab. Riyal	[illegible]	[illegible]	Sweden	11.68-11.78
Singapore Dollar	[illegible]	[illegible]	Switzerland	3.17-3.20
Sth. African Rand	[illegible]	[illegible]	United States	1.55½-1.57½
U.A.E. Dirham	[illegible]	[illegible]	Yugoslavia	125-138

*Selling rates. **The rate on May 12 should have read 8.4710-8.4950.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	9 month	12 month
Dollar	1.5670	1.56485	1.56155	1.5586	1.5537
D-Mark	3.8325	3.8138	3.7825	3.7385	3.6665
French Franc	11.5325	11.56	11.6375	11.872	12.3139
Swiss Franc	3.175	3.1575	3.1288	3.0854	3.005
Japanese Yen	363.5	362.20	359.90	356.50	350.815

BANK OF ENGLAND TREASURY BILL TENDER

	May 15	May 6		May 13	May 6
Bills on offer	£100m	£100m	Top accepted rate of discount	0.7868%	0.6063%
Total of applications	£308m	£363.045m	Average rate of discount	0.7471%	0.5351%
Total allocated	£100m	£100m	Average yield	—	0.77%
Minimum accepted bid	£97.060	£97.005	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	79%	55%			

CURRENCY MOVEMENTS

May 10	Bank of England Index	Morgan Guaranty Change %
Sterling	83.9	−30.8
U.S. dollar	121.8	+11.2
Canadian dollar	00.0	−17.1
Austrian schilling	120.5	+29.9
Belgian franc	94.0	− 2.0
Danish kroner	83.6	−10.8
Deutsche mark	129.0	+57.5
Swiss franc	153.1	+109.9
Guilder	118.0	+25.7
French franc	70.0	−33.4
Lira	01.9	−59.3
Yen	149.2	+42.8

Based on trade weighted changes from Washington agreement December 1971. Bank of England Index (base average 1975=100).

CURRENCY RATES

May 13	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.603460	0.590840
U.S. $	8½	1.08548	0.923428
Canadian $	9.27	*	1.13325
Austria Sch	0¾	18.7093	15.9107
Belgian F	9½	N/A	45.1649
Danish Kr	7½	0.46810	8.04999
D mark	4	2.68107	2.26083
Guilder	4½	2.99104	2.54497
French F	0½	7.99900	6.80644
Lira	17	1583.44	1347.00
Yen	5½	N/A	014.995
Norwgn Kr	9	7.71668	6.54890
Spanish Pta	—	149.038	126.835
Swedish Kr	8½	8.12590	0.90578
Swiss Fr	4	2.20574	1.87502
Greek Dr'ch	20½	01.1478	77.5495

*CS/SDR rate for May 12: 1.33326.

THE POUND SPOT AND FORWARD

May 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.5610-1.5700	1.5665-1.5675	0.24-0.19c pm	1.65	0.57-0.52pm	1.39
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nethlnd.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 76.90-77.00. Six-month forward dollar 0.96-0.91c pm. 12-month 1.55-1.45c pm.

THE DOLLAR SPOT AND FORWARD

May 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5610-1.5700	1.5665-1.5675	0.24-0.19c pm	1.65	0.57-0.52pm	1.39
Ireland†	1.2885-1.2940	1.2930-1.2940	0.68-0.58c pm	5.85	1.90-1.75pm	5.66
Canada	1.2265-1.2278	1.2270-1.2275	0.04-0.07c dis	−0.54	0.10-0.13dis	−0.39
Nethlnd.	2.7490-2.7690	2.7490-2.7510	0.85-0.75c pm	3.48	2.37-2.27pm	3.36
Belgium	48.73-48.95	48.73-48.75	4½-6c dis	−1.29	13-17dis	−1.23
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 49.05-49.15.

EXCHANGE CROSS RATES

May 13	Pound St'rling	U.S. Dollar	Deutschem'k	JapaneseYen	FrenchFranc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.567	3.830	363.5	11.533	3.170	4.015	2281.	1.923	76.40
U.S. Dollar	0.638	1.	2.446	232.0	7.360	2.026	2.758	1456.	1.227	48.76
Deutschmark	0.261	0.409	1.	94.86	0.009	0.828	1.125	595.2	0.502	19.93
Japanese Yen 1,000	2.751	4.311	10.54	1000.	31.73	8.735	11.86	6275.	5.289	210.2
French Franc 10	0.867	1.359	0.333	315.2	10.	2.753	0.739	1978.	1.667	66.25
Swiss Franc	0.315	0.494	1.207	114.5	3.632	1.	1.358	718.4	0.606	24.06
Dutch Guilder	0.232	0.363	0.889	84.29	2.674	0.736	1.	528.9	0.446	17.72
Italian Lira 1,000	0.438	0.687	1.680	159.4	5.056	1.392	1.891	1000.	0.843	33.49
Canadian Dollar	0.520	0.815	1.993	189.1	0.999	1.651	2.243	1186.	1.	39.74
Belgian Franc 100	1.309	2.051	5.016	475.8	10.09	4.156	5.640	2986.	2.516	100.

MONEY MARKETS

A quiet week in London

It was a very quiet week on the London money market. There was no shortage of news, but most of it was of a "wait and see" nature, resulting in a narrow marking up of interest rates by about ⅛-¼ per cent. The general election date of June 9 was favourably received, but although rates had been easing down on hopes of a cut in base rates around the time of an early election, the actual announcement by the Prime Minister tended to cure the recent fever and replace it with a severe case of cold feet.

Presumably it is one thing to be optimistic of another Conservative Government in the event of an election, but quite another when the spectre of a Socialist regime begins to take tangible form whatever the opinion polls might say. UK money supply figures have been very disappointing recently, and the market has therefore been hoping for a reduction in U.S. rates if London interest rates are to be cut in the near future.

Events seem to depend on movements in U.S. markets, which have been digesting several economic statistics of late. A rise of 1.8 per cent in U.S. April retail sales, coupled with sharp growth in March consumer instalment credit pointed to strong growth in the U.S. economy, and the publication of these figures led to doubts about a cut in the Federal Reserve discount rate.

On Friday the rise of 2.1 per cent in industrial production during April confirmed the rate of economic growth, and increased fears that in present circumstances the Fed will be more concerned with putting a brake on the rising money supply, rather than cutting interest rates ahead of the Williamsburg Summit.

The London market was short of credit last week, and the Bank of England generally supplied less than enough assistance. This was not a reflection of the reluctance of the discount houses to sell paper in the hope of lower interest rates, but more an indication of the lack of money market liquidity. The houses would prefer not to sell long dated band 4 bills, because this could involve them in a running loss, and do not have enough short dated band 1 and 2 bills to take out the full shortages, because these bills have already been sold to the authorities.

LONDON MONEY RATES

May 13 1983	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	—	[illegible]-10⅝	10¼-10½	—	—	10-10⅝	10-10¼	—	—	—
2 days notice	—	—	10¼-10⅜	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	[illegible]-10⅜	10¼-10½	—	—	10½-10⅝	10-10¼	—	—	—
One month	[illegible]	[illegible]-10½	10¼	10⅞-10½	10⅝	10½-10¾	10	10	10[illegible]-10[illegible]	10[illegible]
Two months	[illegible]	[illegible]-10[illegible]	10⅛	10¾-10⅝	10⅝	10⅝	0⅞	2[illegible]	9[illegible]	10[illegible]
Three months	[illegible]	[illegible]-10⅜	10	10⅝-10¼	10⅝	10½	9¾	9¾-9⅞	9[illegible]	10[illegible]
Six months	[illegible]	[illegible]-10[illegible]	10	10⅝-10	10[illegible]	—	—	—	0[illegible]-9[illegible]	10⅞
Nine months	[illegible]	[illegible]-10[illegible]	10	10⅝-10¼	10[illegible]	—	—	—	—	—
One year	[illegible]	[illegible]-10[illegible]	10⅛	10⅛-10⅛	10[illegible]	—	—	—	—	—
Two years	—	—	10⅛	—	—	—	—	—	—	—

ECGD Rate Export Finance Scheme IV Average Rate for interest period April 6 to May 3 1983 (inclusive) 10.304 per cent.

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates nominally three years 10¾ per cent; four years 11⅛ per cent; five years 11¼ per cent. ♦Bank bill rates in table are buying rates for prime paper. Buying rates for four month bank bills 9¾ per cent; four months trade bills 10⅛ per cent.

Approximate selling rate for one month Treasury bills 9[illegible] per cent; two months 9⅞ per cent; three months 9⅝-9¾ per cent. Approximate selling rate for one month bank bills 10-10[illegible] per cent; two months 9⅞ per cent and three months 9[illegible] per cent; trade bills one month 10⅞ per cent; two months 10[illegible] per cent and three months 10[illegible] per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 11 per cent from May 1 1983. London and Scottish Clearing Bank Rates for lending 10 per cent. London Deposit Rates for sums at seven days' notice 6¾ per cent.

Treasury Bills: Average tender rates of discount 9.7471 per cent. Certificates of Tax Deposit (Series 6). Deposits of £100,000 and over held one month 10½ per cent; one-three months 10¾ per cent; three-six months 10¾ per cent; six-12 months 10¾ per cent. Under £100,000 10 per cent from April 6. Deposits held under Series 3-5 10¾ per cent. The rates for all deposits withdrawn for cash 8 per cent.

INTEREST RATES

EURO-CURRENCY INTEREST RATES

(Market closing rates)

May 10	Short term	7 days notice	Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-10[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9-9¼
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-0⅛
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-4[illegible]
Deutschm'rk	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-5½
Fr'nch Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-17½
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-19⅛
Belg. Franc Conv.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-10¾
Fin.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] 10⅛
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-6⅝
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-12⅛
Asia $ (Sing.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]-9⅛

FT LONDON INTERBANK FIXING

(11.00 a.m. MAY 13)

3 month U.S. dollars		6 months U.S. dollars	
bid 8 11/16	offer 8 15/16	bid 8 7/8	offer 9

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Prime rate	10½
Fed funds (lunch-time)	0¼-8½
Treasury bills (13-week)	9.01
Treasury bills (26-week)	8.01

GERMANY

Lombard	6.0
Overnight rate	5.025
One month	0.25
Three months	5.30
Six months	0.35

FRANCE

Intervention rate	12.5
Overnight rate	12.0
One month	12.5625
Three months	12.5625
Six months	12.6875

JAPAN

Discount rate	5.5
Call (unconditional)	5.03125
Bill discount (3-month)	6.65625

SWITZERLAND

Discount rate	4.0
Overnight rate	2½-3½
One month	4[illegible]-4[illegible]
Three months	4[illegible]-4[illegible]

NETHERLANDS

Discount rate	4.5
Overnight rate	4⅞-5
One month	5¼-5½
Three months	5⅜-5⅝
Six months	5½-5¾

$ CERTIFICATES OF DEPOSIT

One month	8.40-8.50
Three months	8.45-8.55
Six months	8.55-8.65
One year	8.70-8.90

LONG TERM EURO $

Two years	9⅞-10⅛
Three years	10⅛-10⅜
Four years	10¾-11
Five years	11⅛-11⅜

SDR LINKED DEPOSITS

One month	9[illegible]-8[illegible]
Three months	8[illegible]-8[illegible]
Six months	8[illegible]-8[illegible]
One year	8¾-9

ECU LINKED DEPOSITS

One month	8[illegible]-8[illegible]
Three months	8½-8⅞
Six months	9[illegible]-9[illegible]
One year	9[illegible]-9[illegible]

FINANCIAL FUTURES

CHICAGO

THREE-MONTH EURODOLLAR $1m points of 100%; U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%; THREE-MONTH STERLING DEPOSIT £250,000 points of 100%; U.S. TREASURY BILLS (IMM) $1m points of 100%; 20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%; CERT. DEPOSIT (IMM) $1m points of 100%; STERLING £25,000 $ per £; THREE-MONTH EURODOLLAR (IMM) $1m points of 100%; DEUTSCHE MARKS DM 125,000 $ per DM; STERLING (IMM) Se per £; SWISS FRANCS SwFr 125,000 $ per SwFr; GNMA (CBT) 8% $100,000 32nds of 100%; JAPANESE YEN Y12.5m $ per Y100 — tables of Latest, High, Low, Prev by delivery month: [illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

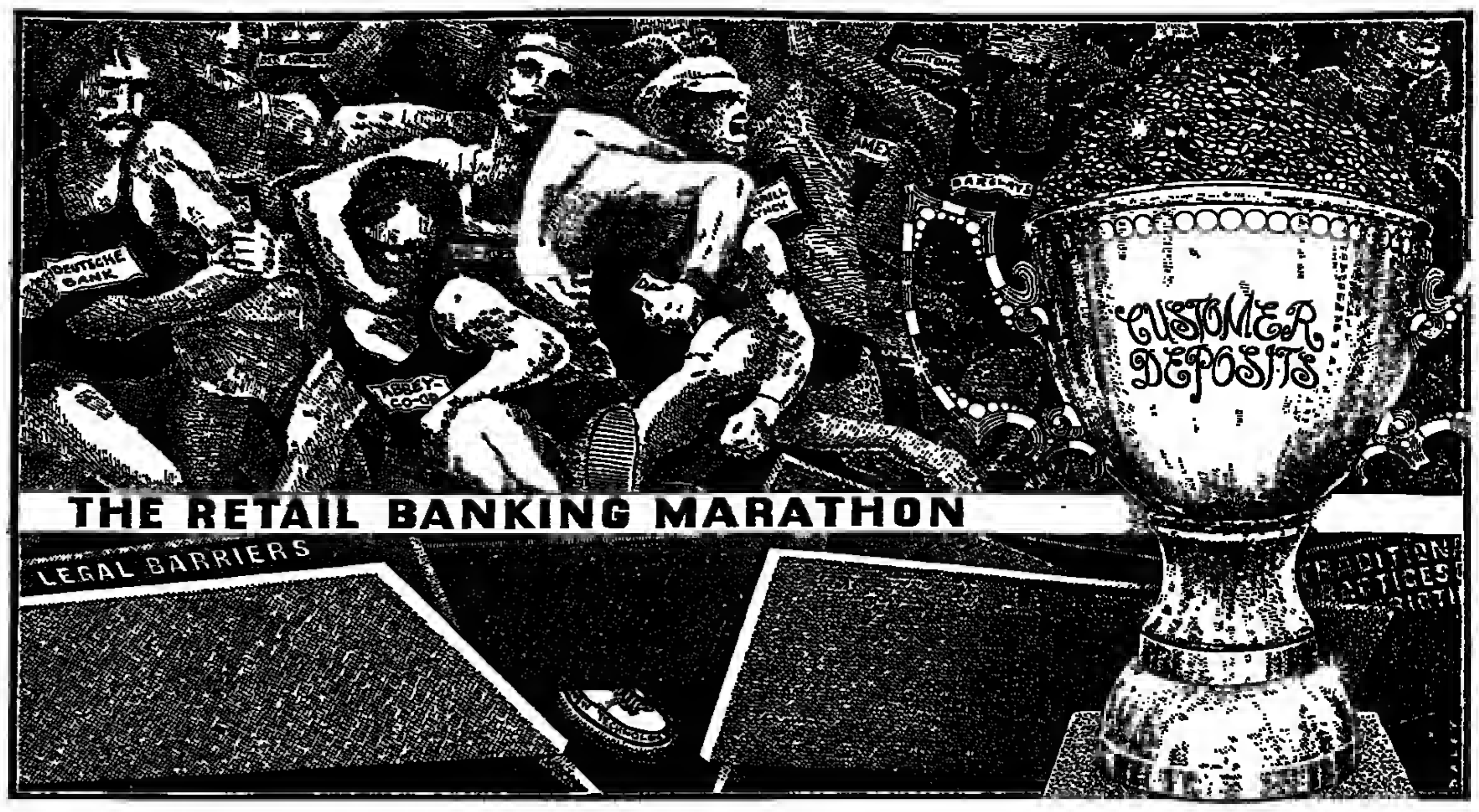
	May 13	change		May 13	change
LONDON			NEW YORK		
Base rates	10	Unch'd	Prime rates	10½	Unch'd
7 day interbank	10¼-10⅜	[illegible]	Federal funds	8¼-8½	[illegible]
3 mth interbank	10⅛-10⅜	[illegible]	3 mth Treasury Bills	8.01	−0.01
Treasury Bill Tender	9.7471	[illegible]	6 mth Treasury Bills	8.01	+0.02
Band 1 Bills	10⅛	Unch'd	3 mth. C.D.	8.50	+0.15
Band 2 Bills	10	Unch'd	FRANKFURT		
Band 3 Bills	[illegible]	Unch'd	Lombard	5.00	Unch'd
3 Mth. Treasury Bills	[illegible]	[illegible]	One Mth. Interbank	5.20	−0.05
1 Mth. Bank Bills	[illegible]	[illegible]	Three month	5.20	−0.10
3 Mth. Bank Bills	[illegible]	[illegible]	PARIS		
TOKYO			Intervention Rate	12½	Unch'd
One month Bills	0.46870	−0.0625	One Mth. Interbank	12[illegible]	[illegible]
Three month Bills	6.65625	Unch'd	Three month	10[illegible]	[illegible]
BRUSSELS			MILAN		
One month	9[illegible]	[illegible]	One month	17[illegible]	Unch'd
Three month	9[illegible]	[illegible]	Three month	17[illegible]	Unch'd
AMSTERDAM			DUBLIN		
One month	5[illegible]	[illegible]	One month	14[illegible]	[illegible]
Three month	5[illegible]	[illegible]	Three month	14[illegible]	[illegible]

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

graph option. As a quid proquo would be increased. "Any talk A fourth option is to design

WORLD BANKING

PART TWO; Part One appeared last Monday



A revolution in financial services

TEN YEARS AGO it would have seemed inconceivable to most bankers that the 1980s could bring an onslaught of competition for banking business from retailers, securities houses, insurance companies, credit card and travellers' cheque groups, as well as traditional one-product savings institutions, such as building societies.

Yet this is precisely what is now happening as these organisations race along with commercial banks to find their place in what has become known around the world as "The Financial Services Revolution."

By ALAN FRIEDMAN

Banking Correspondent

Advanced electronic technology has been the hand-maiden of this revolution. And it is beginning to pose a threat to the most precious commodity that the world's banks have at their disposal—the retail deposit base.

For a traditionally conservative industry such as banking the threat of technology-aided competition from non-banks first seemed perplexing and then worrying. It has taken a few years for the pin-striped guardians of the banking world to react.

But the realisation that a company such as America's retail giant—Sears Roebuck—might actually attempt to sell banking services to its 25m credit card customers the way it already sells boots and toasters has sunk in.

Bankers in the U.S. and elsewhere have watched as American Express-Shearson, Merrill Lynch, Prudential-Bache, Aetna Life, Visa, MasterCard and J. C. Penney have either announced their intentions or launched viable business schemes designed to attract customer deposits away from more traditional names such as Barclays, Citibank and Deutsche Bank.

The entry of non-banks into mainstream retail banking business is a result of several key factors including the rise of electronic technology.

For one thing the traditional and legal barriers which have given banks a privileged position for more than 50 years are beginning to break down around the world. In the U.S. it is most apparent as savings banks and commercial banks do battle with one another and with retailers and securities houses. Meanwhile, the idea of interstate branching is becoming less a concept and more a reality even though the laws have not yet been altered.

In West Germany, the past few years have seen increasingly vigorous competition among savings, commercial and co-operative banks. Truly vicious rows have flared among these bank groupings as a result of differences over how best to organise West Germany's retail payments systems such as cards and travellers' cheques. In the end it was American Express, which is not a bank, which came into West Germany and developed its own preferred solution on payment systems.

In Britain, the nation's building societies have launched an unprecedented offensive on the oligarchic Big Four clearing bank establishment. The battle for High Street customer deposits has never been hotter.

In Japan, the leading commercial banks and major four securities houses are locked in a quiet struggle to offer more types of financial services to a market of 120m Japanese. The banks are encroaching on the securities houses' traditional government bond business and the securities firms are demanding more banking activities such as commercial paper business.

The global push into retail banking is also a function of traumatic experiences in the international syndicated loan market and in corporate banking. Packaging a 20-bank loan syndicate which underwrites and sells down $500m of credits to Mexico may have required less skill and may have seemed more like traditional banking business a few years ago, but it became an unhappy experience for many commercial banks.

Luring millions of bank customers' deposits away from Bank X and over to Premium Gold Card Company Z requires a greater capital expenditure and more marketing skills, but it appears to be working.

How else can one explain the success of organisations which offer plastic cards—which customers pay for—and money market funds linked to the plastic cards, or accounts which can be utilised through regional or nationwide networks of cash dispensers? How else could it be that non-banks are making a dent in bank deposits by offering easier access to customer deposits and more sophisticated alternatives for money transmission?

Customers around the world, particularly at the upper end of the market, are showing a decided preference for organisations which will provide convenience and choice. Money can be transmitted around the planet at the speed of light and an increasing number of individual customers are opting away from the tradition of nine to three banking hours at unimaginative bank branches.

The world's banks are fighting back. In the UK the past three years have seen an unprecedented lunge for home mortgage business by the banks. Barclays, for example, is opening its doors on Saturday mornings to compete with the more convenient hours of building societies.

In Scandinavia a number of banks have been successful in developing electronic funds transfer (EFT) systems which meet customer demands.

In the U.S. banks are examining ways to get into insurance, brokerage and interstate branching business to maintain what many U.S. bankers call "a level playing field" with non-banks.

Banks are trying to team up with retailers to prepare for electronic funds transfer at the point of sale (EFTPOS)—a system which will eliminate the need for cash at supermarkets and department stores through direct debits of purchases from bank accounts.

On the corporate front, banks are using electronic technology to sell their cash management

CONTINUED ON PAGE XX

As radical changes sweep through the banking world, the financial organisation of the 1990s may well be an institution which has a securities broking subsidiary, a retail network involving fewer costly branches and a greater number of electronic cash dispensers in banks and retail areas. It may also offer insurance services, plastic cards, travellers' cheques, money market funds and point-of-sale debit systems.

INDEX: PAGE TWO

WORLD BANKING II

CORRESPONDENT BANKING has been arousing new interest as banks rediscover their ability to make profits providing banking services to other banks.

A new lease of life

LAST NOVEMBER an international seminar on correspondent banking was held in London. That this should be the first ever to be convened anywhere reflects both the recent renaissance of correspondent banking and the significant changes that are taking place within it.

As high interest rates, low profit margins and greater credit risks have decreased the profitability on lending banks have been turning to other sources of income. In the process they have rediscovered correspondent banking.

Historically, correspondent banking has been an interbank relationship whereby banks effected each other's settlements, undertook local exchange transactions, trade financing, collection services, international money transfers and all the other services involved in making payments across national borders—or in the case of the U.S. across state boundaries. Internationally it has developed along with the growth in world trade and latterly with the rapid expansion of the Euromarkets.

Today banks are each other's biggest customers. A very large proportion of a bank's assets and liabilities are with other banks. They are both the biggest source of funds and the largest customers for them. Some 90 per cent of all foreign exchange dealings are interbank.

Correspondent banking has been a very traditional business, resistant to change and with many of the long standing correspondent links based on personal relationships. But over the past five years—more specifically, in the past two years—the nature of the business has been changing. It is becoming less fraternal and more commercial as aggressive newcomers come in, attracted by the relatively low risks and, until recently, easy profits.

Respondent banks are becoming more financially sophisticated and demanding, helped in large part by the improvement in banking services which has come with the electronic revolution. At the same time banks already in the business have been forced to re-evaluate their correspondent services in terms of cost effectiveness and profitability—an altogether new concept in correspondent banking.

Increasingly correspondent banking is being looked at as a profit centre. Special divisions are being set up by banks under senior management to run the correspondent operation. Staff are being hired and trained to become correspondent bankers. There are now career correspondent bankers.

In the past the free or compensating balances which a bank held with its correspondent bank more than paid for the services it required. The correspondent bank gained low-cost funds and the respondent bank acquired low-cost services. As interest rates rose higher and higher correspondent banking became more and more profitable as the correspondent banks were able to use the free balances to earn high rates of return. But conversely the cost to the respondent bank of maintaining those balances was high.

Balances

Moreover, over the past two years those free balances have dropped dramatically. For U.S. banks by far the most important aspect of their correspondent business is settlement of dollar transactions in New York, given that more than 50 per cent of world trade is denominated in dollars which has to be cleared in the U.S. But though the volume of settlements which they process has continued to grow they have been making far less money on them. The 10 largest U.S. banks, for example, have seen their free balances slashed from $17bn in 1980 to a current level of some $6bn.

This is because respondent banks, like any others suffering a pressure on earnings, have begun to question their large holdings of non-earning balances with their correspondent banks, the more so when interest rates have been high. This has coincided with the move of CHIPS (Clearing House Interbank Payments Systems) to same-day settlement. It has become easier to monitor these balances and with electronic cash management terminals easier to manage them. With the growing list of advisory and other services available as well they can see more profitable uses for these balances.

It is ironical that the very services developed by the established correspondent banks in their efforts to stave off competition have been the very instruments which have effectively reduced those lucrative free balances which lured the competitors into the business in the first place. In the words of one correspondent banker, "the goose that laid the golden egg has lost a lot of weight".

Faced with the dramatic drop in compensating balances the correspondent banks have been forced to re-evaluate the services which they provide. The over-riding principle has been that interbank services should pay for themselves, which indeed they more than did. But then banks discovered that many of the services were being provided at a loss. Even those areas such as letters of credit, collection and safe keeping which had tended to be operated on a fee or commission basis, were not priced to reflect costs. This was as true in Europe as in the U.S. despite the fact that a larger proportion of correspondent banking had been conducted on a fee basis in Europe simply because there was less necessity to maintain free balances in sterling or Deutschemarks, say, than in dollars.

In the past 18 months or so correspondent banks have, in their own words, been undergoing an "agonising reappraisal". They are moving towards charging for services through fees to make up the shortfall between free balances and the cost of the services provided. These fees are becoming more cost-related. Fees have the added advantage of being paid immediately whereas it can take months of adjustment to determine the collected balances of a large volume correspondent. Fees are also stable and not influenced by changing interest rates in the way that balances are.

Whether or not fees charged should merely cover costs or provide a profit, the pricing issue itself has still to be resolved. Different banks are at differing stages of development. In switching from a free balance basis to commissions some U.S. banks, for instance, introduced a somewhat irrational pricing system which was more product-related than customer or market-orientated. They have since had to make their pricing more sensitive to different customers and markets.

Costs

There is difficulty in determining just what costs are involved in correspondent banking, drawing as it does on a wide range of the bank's divisions. Moreover, while new technology may reduce costs of providing the services the investment involved has to be incorporated in pricing. There is a need to re-define whether services such as interbank syndication, standby credits and credit assessment are necessarily correspondent banking activities.

As correspondent banks incline towards a fee or commission basis—and not all are—their services are being subjected to much closer scrutiny by the recipients who inevitably are anxious to get value for money. On a fee basis it is much easier to make this evaluation. In some cases respondent banks find that less sophisticated lower cost services would better suit their requirements than those on offer.

Correspondent banking is not a homogeneous business. There is great variation in banks and banking around the world. Flexibility is essential. Those experienced in the business expect there to be some shake-out; not all those who have been latterly lured into the business will stay. Much of the easy profits that were there have vanished, and though realistic pricing of services is helping banks make up lost ground, they are still running to catch up.

As one U.S. banker says, the game and the players are changing. He predicts that whereas now 25 banks account for 95 per cent of the business in the U.S. today, each having a fairly equal share of the market, by 1991 the number will have been reduced to 15 with one or two having a market share of around 22 per cent.

Margaret Hughes

CASH AND TREASURY MANAGEMENT SERVICES

Glamourised by new technology

TO TALK about cash management or treasury management is to be rather fashionable in the banking world these days. It is not that they are new concepts, but that they have become glamourised by advances in computer technology.

In essence, they amount to a job definition for any corporate treasurer whose task it is to manage and move his company's cash to its best possible advantage.

The name of the game, as always, is to collect funds as quickly as possible, delay payments for as long as possible and in between to get the best return on what moneys are available and, should there be need, to raise funds on the best possible terms.

If the corporation is in any way involved in international transactions then mastering the various techniques of the foreign exchange and money markets—or treasury management—is another pre-requisite. Easier said than done. Even the terms cash management and treasury management are confusing and definitions seem to vary from bank to bank and company to company.

Easier task

But if the banks' marketing blurb is to be believed the corporate treasurer's task is now being made easier, thanks to all the information at his finger, or terminal, tips through computerised cash/treasury management systems, complemented, of course, by the expanding advisory services of banks.

Through a computer terminal in a customer's office, linked to an ordinary telephone, the bank supplies balance and transaction reporting which allows the company treasurer to know precisely what funds he has in various bank accounts in whatever location, in whatever currency.

On the treasury management side, banks provide foreign exchange and money market information which allows the treasurers to keep track of his currency positions.

With the assistance of various computer "models" and backed by the banks' advisory services the treasurer is able to make use of techniques like hedging, swaps, options and the futures market to limit his foreign exchange and interest rate exposures as well as determine corporate borrowing and investment policies.

To help him master these techniques, some—such as Bank of America and International Treasury Management (the Marine Midland/Hongkong Shanghai Banking subsidiary)—run training courses for treasurers and others involved in managing corporate funds.

On the balance and transaction reporting side, the information supplied based on the positions at the close of the previous day's business, while foreign exchange and money market reports are updated at regular intervals during the day. Banks are, however, hoping to move to real-time reporting—pilot systems are currently in operation in the U.S.

Some banks—such as Bank of America—which along with the other big U.S. banks developed its own software—are also working on systems where a microcomputer would replace the simple terminal. The microcomputer would undertake a variety of functions for the corporate treasurer, and could be used for foreign exchange transactions and automated funds transfer.

Electronic cash and treasury management systems represent a whole new treasure trove of commission business for banks under pressure to find new sources of income as lending margins dwindle.

The systems themselves are not new, but since they were previously undertaken manually were both limited and increasingly costly to provide. Computerised systems were first developed in the U.S. in response to the problems created for corporations which did business across state boundaries but whose cash management was complicated and hampered by banking regulations which prohibit interstate banking.

Expansion

Computerised systems were first developed by the banks for in-house use, but their wider application as a service for clients proved a useful means of recouping initial expensive investment. It is a development which has expanded in the last five years or so and introduced to Europe by the U.S. banks in the past two to three years.

Although initially, at least, geared to dollar transactions, the U.S. systems, nonetheless, helped these banks make inroads into the corporate business in Europe and in the meantime they have adapted their system to other currencies. The European banks' response, led by the UK clearers, has been to get into the business too with multi-currency systems.

Midland Bank, quickly followed by National Westminster Bank, were the first to introduce computerised cash management in the autumn of last year. Both also offer treasury management, with Midland offering projection and forecasting services, whilst NatWest sticks to straight day-to-day reporting of the foreign exchange and money markets.

This month Midland stole the lead on NatWest by launching its automated funds transfer system using again ADP Network Services Technology. The system provides the corporate treasurer with a direct link through his computer terminal to Midland's own payments systems which either have been, or are being, fully automated.

Through Midland, the treasurer will also have electronic access to international currency wire transfer systems, such as SWIFT (Society for Worldwide Interbank Financial Telecommunications).

Barclays and Lloyds are both further behind and more reticent about their plans in the area. Barclays will go ahead with a system based on software of Chemical Bank, the only U.S. bank which has so far successfully marketed its system to other banks.

Barclays is expected to launch a computerised cash management service in tandem with automated funds transfer. Lloyds, on the other hand, is keeping its plans very close to its chest.

Elsewhere in Europe, the French banks are furthest ahead with Société Générale expected to introduce an ADP-based system in the next few months. In France there is already a fairly extensive domestic computerised balance reporting system.

The result of computerising these systems is to make the corporate treasurer more sophisticated than he was already becoming and, thus, more demanding of the services which the banks are offering represent a defensive move to hang on to existing clients.

It is clear that new technology is altering the face of banking as a whole and in the process eliminating or reducing some income sources but, banks hope, throwing up some new ones.

M. H.

IN THIS SURVEY

Introduction: a revolution in retail services ...... I and XX
Correspondent banking; cash management (this page) II
Corporate banking ...... III-IV
Merchant banking .... IV-V
Mergers and acquisitions ... III
Accountancy practices III
Leasing sector IV
Financial services: export finance V
Portfolio management V
New technology VI
Travellers' cheques VII
Credit card transactions ... VII
● Country sections:
North America .... VIII-IX
The Middle East .... X-XII
Asia .... XII-XVI
Australasia XIV
Latin America ... XVII-XVIII
Africa .... XIX-XX

● Topics reviewed in Part One, published on Monday May 9, included:

The world economy; the oil price; interbank money market; problem countries; the central banks; the Bank for International Settlements; and the Ditchley Institute.

Other articles examined bad debt provisioning policies; the Group of Thirty; the International Monetary Fund; the World Bank; the Basle Group; Sovereign Risk Analysis, the search for a lifeboat; and viewpoints from the international banking community.

Part One concluded with an examination of banking prospects of individual European countries.

WORLD BANKING III

CORPORATE BANKING: changing requirements of business customers are being met by new services from the banks.

Take-over arena makes money

Mergers and acquisitions

DAVID DODWELL

THE INVESTMENT banks of the U.S. have made show business out of the mergers and acquisitions business, with factors like style and panache as widely talked about as the fortunes it earns them.

But a series of controversial multi-billion dollar deals over the past two years—most conspicuously the sometimes-farcical four-cornered battle between Bendix, Martin Marietta, Allied and United Technologies—has left in its wake worries that the take-over business is getting out of hand.

At the same time, with Britain's merchant banks beginning to adopt practices developed in the U.S., a flurry of takeover activity in the UK has brought ripples of Wall Street's controversy across the Atlantic.

From within America's large banks have emerged business-hungry departments specialising exclusively in mergers and acquisitions.

In the vanguard, investment banks like Goldman Sachs, Lehman Brothers, First Boston, Lazard Freres, Morgan Stanley and Salomon Brothers have become wealthy on merger and acquisition work.

In 1982, in the U.S., financial intermediaries earned $220.5m engineering 33 mergers, and for underwriting 17 debt and equity offerings. The median fee was $3.8m.

In the year's biggest deal, First Boston pocketed $17.4m delivering Marathon Oil into the hands of U.S. Steel for $5.96bn.

The First Boston's two star takeover specialists, Mr Joseph Perella and Mr Bruce Wasserstein, are understood to earn seven-figure incomes for their work. They played a large part in putting their bank at the top of the fee-earnings league in 1982. First Boston earned $38.4m billing clients for mergers and acquisitions. They were closely followed by Goldman Sachs, with $34.9m.

What has caught public attention is not just the profits reaped—fees are widely acknowledged to be a matter of what a banker can get away with, and understood to be in some cases as much as 10 times the expenses incurred working on a deal—but the gladiatorial style in which deals are fought, and the fact that banks are becoming increasingly predatory. Some deals have ultimately seemed to benefit no one but the investment bank itself.

Instead of waiting for clients to approach them, the investment banks have become increasingly sophisticated in identifying and initiating merger opportunities. Merger and acquisition work, once

‘What has caught public attention is not just the profits reaped but the gladiatorial style in which deals are fought and the fact that banks are becoming increasingly predatory’

tucked away in corporate finance departments, now dominates the activities of the market leaders.

"The development of these departments is helping to change the face of corporate America," one banker noted recently. "They have enormous incentives to come out on the winning side. And, in the past year or two, they have sometimes seemed more concerned with pulling rabbits out of hats than with the long term health of their clients."

In the UK, merchant banks still spurn the "transaction oriented" relationships that characterise the links between U.S. companies and their bankers. They strive to maintain long-term relationships with clients, to whom they provide wide ranging advice on corporate policy. But even here, things are changing fast.

"The gentlemanly and rather patrician relationship which has traditionally existed between the merchant bank and its client is being superseded," one analyst noted.

The habit of "poaching" clients, or initiating merger ideas, is beginning to catch on. Merger and acquisition units are still "tucked away in corporate finance departments," but the rapid growth of these departments, coupled with the increasing importance attached to merger and acquisition work, is notable.

Morgan Grenfell — with S. G. Warburg the dominant force in UK take-over activity—has seen its corporate finance department swell from less than 80 to more than 100 in two years. A four-man merger and acquisition support group is the newest the merchant bank has to the predatory departments of the U.S. investment banks.

Mr Graham Walsh, head of Morgan Grenfell's corporate finance activities, concedes that his staff make overtures to non-clients with merger and acquisition ideas germinated inside the bank's walls.

But he insists that the UK bankers' attitudes to such work remains qualitatively different from that of their counterparts across the Atlantic.

"In contrast with the U.S. this is fundamentally not a transaction-oriented business. What we are interested in is a long-term relationship with a client. You have to inspire his confidence and assure him the advice he is receiving is the right advice," he said.

Even "upstarts"—like County Bank, the merchant banking arm of clearing bank National Westminster, which as relatively recent arrivals in the merger and acquisition business, must poach clients if they are to establish a presence—aim not for once-only deals confined to takeover activity but for a boardly-based relationship in which merger and acquisition work is the first step on a ladder to providing a wide range of corporate financial services.

Perhaps it is for this reason that merger and acquisition work does not generate the fabulous profits talked of in the U.S. Morgan Grenfell discreetly concedes that the work has been profitable—about two-thirds of the fee income of the corporate finance department. But Mr Walsh insists that department running costs have risen apace.

Hill Samuel, perhaps typically, says merger and acquisition work is increasingly profitable—but more because of larger volume of business than because of ballooning fees. It also insists that it is impossible to disentangle fees for take-over work from fees for overall corporate financial services.

County Bank says fee-related earnings account for about half of the total bank pre-tax profit—and most of these are linked with merger and acquisition work.

For all this modesty, some fees can reach into seven figures—as with S. G. Warburg and Morgan Grenfell in the as-yet unresolved £596m offer from BTR for Thomas Tilling. Other deals, like the battle between Hanson Trust and Bassishaw for United Drapery Stores—worth around £250m—and the purchase of F. W. Woolworth by Paternoster Stores for £310m, will also have brought handsome rewards.

So far, changes in the UK have brought at least one favourable result. Merchant banks, aware that the predatory activities of competitors have significantly raised the risk of losing even long-standing clients, have become measurably more attentive to the broadest range of clients' needs. Departments have grown as new expertise has been acquired.

Often in the past, developments appearing now in corporate America emerge in the UK half-a-dozen years later. The changing shape of merger and acquisition business in Britain today suggests a typical trend.

If so, the efforts by merchant bankers in London today to remain responsible for the whole gamut of a client's affairs may be in vain. However, the emergence of concern in the U.S. about the adverse effects of current merger and acquisition practice have given an opportunity to reflect, and perhaps to learn from mistakes.

Strong views on accounting practices: Lord Benson (left), an adviser to the Bank of England: and Lord Lever (right), who said that the unfolding of the international banking crisis has left the hidden reserves argument looking more and more like a "frolic on the margin."

The 15 months which have elapsed since the discussion have seen a dense mist arising over the question

Hidden reserves debate runs out of steam

Accounting practices

DUNCAN CAMPBELL-SMITH

THREE wise men from the German Bankers' Association were among the many individuals whose views were considered by a House of Lords Select-Committee in 1981-82 before it presented its report last year on banks' accounting practices in the EEC.

The desirability of allowing banks to maintain off-balance sheet reserves was a key issue for the report to address and detailed submissions were received from both parties to the debate. With commendable frankness, it was one of the three German bankers who pointed openly to the basic premise underlying the whole case for hidden reserves and the adulteration of banks' reported accounts which their existence implies.

"This might sound hostile from my side," he said, "but I think if you give someone information delicate and difficult to understand who is not in a position to understand it, to work with it, that is more dangerous than to give him no information."

Most of their lordships who subsequently debated the matter took sides with the report in dismissing this argument and recommending the complete abolition of hidden reserves. Indeed Lord Benson, an adviser to the Governor of the Bank of England and himself an accountant, went so far as to reject the German banker's view as "totally repugnant." The case for hidden reserves, as summarised by Lord Benson, amounts to the proposition that "depositors are such a bunch of nimmies that the bankers are entitled to deceive them."

The 15 months or so which have elapsed since that debate, however, have seen a dense mist rising inexorably over the whole question.

This is only partly due to the predictable effect of hot air passing over a cold subject within the deepest recesses of the EEC. It is also fair to say—as indeed Lord Lever did in that same Lords debate—that the unfolding of the international banking crisis has left the hidden reserves argument looking more and more like a "frolic on the margin."

Consider, for example, the case of the UK clearing banks. They have long since abandoned their hidden reserves. But understanding the true position of their finances in 1982 has been made sometimes hopelessly difficult by the scale of their bad debt provisions.

Polite silence

The assumptions underlying these provisions, their specific allocation, the policy towards drawing on them for write-offs—such questions, the answers to which might point to the real degree of caution being exercised, have invariably met with a polite silence from the clearing banks.

One result of this has been to add to the unpredictability of the banks' results. It is not so much their depositors as their close followers in the City, especially among the broking community, who have had to risk being treated, in Lord Benson's words, as a bunch of nimmies. Forecasting the complex development of the big UK banks has hardly been made less hazardous in 1982-83 by their disavowal of hidden reserves.

By the same token, though, broader issues than just the matter of hidden reserves are now seen to stand between a bank shareholder anywhere in the EEC and a meaningful set of year-end accounts. This appears to be the conviction underlying a growing lethargy over the reserves question among most of those concerned.

The draft directive of the EEC which would allow banks to under-value loans and advances by up to 5 per cent still awaits consideration by the European Parliament. Meanwhile, it has been criticised by many bankers as too serious a constraint and by many from the opposite camp as a lost opportunity to do away with hidden reserves once and for all.

The entrenched defensive position of the Continental banks, particularly in West Germany though less so in Switzerland, continues to ensure that a delicate compromise remains the most likely outcome which will little alter the status quo.

Potential sources of a more radical approach include a straightforward political initiative in line with the House of Lords report's conclusions. But substantial political pressure would probably be required within the UK to effect a change of policy by the accepting houses and the discount houses which continue in most cases to set aside hidden reserves.

"Their intellectual argument is not put over with much conviction these days," says one City auditor. "But most of the accepting houses would just rather let sleeping dogs lie." The Government has shown no sign to date of differing much from this.

Pressure from the auditors themselves could be one other important catalyst for change—but the fact is that most auditors take a distinctly detached view of the issue. Non-disclosure of reserves by a merchant bank simply earns the opinion, where appropriate, that the accounts "comply with the provisions of the Companies Acts applicable to banking companies."

Auditors continue to press for a systematic use of inner reserves such that the published results might present at least a representative trend. This could have made 1982 a testing time for the auditors had not the clearers already relinquished their reserves. In the event it must have caused little difficulty in the case of the accepting houses, with their relatively limited exposure to the international problems of the last year.

WORLD BANKING IV

CORPORATE BANKING: aside from specialist activities, merchant bankers aim to keep the wheels of industry moving

Common link in provision of funds

Merchant banking

TERRY DODSWORTH

WHEN THE spotlight falls on the complex arena of merchant banking it is usually to pick out two of its gladiators locked in battle over one of their corporate clients. But the glamorous business of mergers and acquisitions is only the most visible side of a merchant bank's corporate work. Behind the scenes, the conglomeration of services marshalled by the banks is still directed—as at the birth of the system — at keeping the wheels of trade turning and industry supplied with funds.

While there is a very high degree of specialisation among the different banks, most rely on corporate clients for the main base of their business. For a few, fund management may be equally important; there are also some exotic variants. Kleinwort Benson, for example, has generated a major contribution in recent years from Sharps Pixley, its gold dealing subsidiary, which in some years has probably accounted for more than half its profit. But one way or another the link that holds the merchant banks together is their common role in procurement or provision of funds for the corporate sector.

It is sometimes difficult, indeed, to spot the dividing line between the purely merchant banking activities aimed at corporate clients and the other banking services. Corporate finance departments in the UK are by definition designed to exploit the merger, acquisitions and new issue markets; but the rest of a typical bank may well ride in behind the corporate financiers to sell their services. Even an investment management division may be running pension funds for the medium-sized companies that prefer not to operate their own. A currency dealing room provides expertise that may be an essential element of an overseas project.

The essence of merchant banking, however, is that the type and the mix of services is changing all the time. Each bank is a very different animal—much more so than the High Street clearing banks — and success depends on responding rapidly to the special needs of the corporate clientele. Traditionally, the core of the banks' activities is in overseas trade financing, based on the accepting of bills drawn on London, and this continues as a steady source of business for the banks, along with trade confirming—confirming foreign orders from British manufacturers, shipping the product and securing payment. But the relaxation of the regulations over accepting has made this a more competitive business and the merchant banks' position has probably slipped, as they have switched attention to more specialised areas.

One new function which has developed rapidly since the war is project finance, a sophisticated modern variant of the trade credit system which merchant bankers created to finance commodity trading in an earlier era. This is aimed at catering for the huge infrastructure contracting programmes that are now an essential element of exports to the developing world. It is a sign of the much more integrated world trading community of today that the banks sometimes find themselves acting for foreign as well as British contractors.

Syndicated

Unlike normal international trading, these programmes require long-term finance and are so large that they demand some sort of syndicated banking organisation to supply the loans. They may also require a mixture of currencies to match either the kind of products that are being acquired or the interest rate structure of the deal or the foreign exchange reserves of the client. Some of the banking specialists in this area manage the business from London; but a number of banks are now putting down a permanent presence overseas. Morgan Grenfell, for example, has established a widely-based foreign network over the past 15 years.

In a transaction of this nature the merchant bank acts as both a provider and procurer of finance: some of the funds may come from its own resources but by far the larger proportion is procured from other banks. Similarly in the Eurocurrency field a bank may be acting in such a dual role in providing the enormous syndicated credits which have become an important feature of financing for the big international corporations over the past few years.

Indeed, the Euromarkets, with the equally swift development of Eurobond activity, have provided the circumstances for considerable changes in the merchant banking community. A newcomer like County Bank, the NatWest subsidiary, for example, has quickly developed its presence alongside the older houses by pushing rapidly into this field and using it as a spearhead for its other activities.

On the provision side of the equation, the banks have also been active in recent years in developing leasing—a particularly useful source of funds to small and medium-sized companies in a growth phase, when they have a clearly viable product but are short of development finance. Similar help to smaller growth companies is also available through venture capital projects, where equity is injected by a bank which may later bring the company to the stock market. The development of the Unquoted Securities Market in London has recently given an extra stimulus to this kind of project.

The merchant banks' strength in these financing packages is that they tend to have a degree of specialisation—and therefore flexibility—which the commercial banks are less capable of providing. Few merchant banks would be in a position to replace their larger rivals in the provision of large-scale funds but they have more expertise available to switch clients into different instruments depending on their circumstances.

In the toughest period of monetary controls in recent years, for example, a form of short-term financing through internal bills of exchange was quickly expanded to avoid restrictions on bank credit. Basically self-liquidating, and essentially short-term instruments, the bills were not meant to replace other forms of short-term finance and have now declined in importance; but they illustrate the way a short-term expedient may become important.

The bank's role as procurer of funds is most visible in the new issue business—a role which was developed rapidly in the 1930s. It is in this field that one of the most striking examples of the changeable nature of merchant banking can be seen. A great deal of the time of several banks in the past three years has been taken up in work on the privatisation of large tracts of the nationalised sector. This could reach its culmination in the offer of British Telecom to the public—a move of exceptional scale and complexity. But if the Conservative Party fails to win the next election this source of employment will dry up completely—and the banks will have to go off looking for alternative sources of corporate business.

Traditionally, the core of the merchant banks' activities is in overseas trade financing.

Leasing has become a popular means of corporate finance

Area of political controversy

Leasing

DAVID FREUD

OVER THE last couple of decades the financing techniques of leasing have expanded rapidly within the package of services offered by banks to their corporate clients round the world. And in no other sphere has the business of making money available aroused such a strong backlash. In the U.S. in particular, leasing has aroused fierce political passions and legislative tax Bills alternatively encouraging and discouraging the technique. In the UK too the practice has been subjected to a series of legislative changes.

Essentially leasing is a device whereby the ownership and the utilisation of an asset is separated. Just as increasing specialisation has brought economic benefits in other areas, there can be advantages in this financial separation to both parties in the transaction.

To the user, the lessee, a lease represents a source of medium-term finance that allows rental payments to be tailored to cash flow. For the lessor, a lease allows in effect for a specific security to be given on sums lent. There are various other attractions; for instance, in some countries the assets used by the lessee can be kept off the balance sheet, thereby making capital gearing appear lower than it really is.

But the attraction that has been critical in encouraging the rapid growth of leasing has been the associated tax benefits. On this front, the UK offers the simplest example of how the mechanism works. Since 1972 UK tax legislation has allowed buyers of assets to reduce their taxable income by a full 100 per cent in the year of purchase. Businesses which would not normally buy anything like enough assets for their own use to match their profits, and in particular the banks, soon began to buy assets and pass them over for the use of the manufacturers through a leasing agreement.

Incentive

In practice this meant that the investment incentive was shared, through the leasing rates, between the lessor who was deferring his tax liability until he had to pay tax on his rental income and the lessee for whom the rental would be very much lower than the interest rate burden of buying outright if he did not have taxable capacity of his own.

While the UK clearing banks may have started leasing with the sole motive of sheltering tax, this is probably no longer the case. The banks claim they pass on the whole of the benefit to lessees—a claim which the Bank of England accepts—in which case it would make little difference to their net earnings whether they chose to to pay the tax liability. But now that the business has developed it is an important part of their portfolio of services to customers and one in which they compete aggressively with each other. A bank that pulled out would find itself at a competitive disadvantage.

The tax benefits of leasing may be nowhere as clear-cut as in the UK. Nevertheless, they exist wherever tax credits for investment can be transferred and where depreciation rates accepted by tax-gathering authorities are faster than the true rate of depreciation.

Turmoil

Leasing in its modern form originated in the U.S. and owes its growth there less to the case in the UK. But over the last two years tax changes have thrown the whole industry into turmoil. The 1981 Economic Recovery Tax Act in America made it much easier for a lessor to retain tax deductions on passing over equipment for the use of a lessee. This legislation, opening the door to what was called "safe harbour" leasing, generated a huge volume of deals in which commercial and industrial companies rather than the financial institutions were at the forefront.

The political furore over safe harbour leasing was based on the sheer volume generated — with estimates that the provision could result in tax reductions totalling $41bn over a five-year period — the high rental obtained by lessors and the excessive amount earned by middle-men. So in the following year — 1982 — the Tax Equity and Fiscal Responsibility Act returned the legislative framework towards what it used to be.

Under these provisions a lessee cannot have any equity interest in the property, while the fact that the title is with the lessor does not guarantee that the transaction is a lease. Two important criteria are that the transaction has a bona fide business purpose and that the lessor retains a substantial proportion of the burdens and benefits of ownership.

At the same time Congress introduced e new form of tax-benefit lease as compensation for the loss of the safe harbours rules to take effect after 1983. This is the so-called finance lease. Under this, a lessor may lease "eligible property" to e lessee, in which the lessee must reasonably expect to make a profit apart from any tax benefits. No more than 50 per cent of e lessor's tax liability may be offset by benefits from a lease, while from the lessee's point of view not more than 40 per cent of property put into use in one year may be subject to a finance lease.

The major exporting countries are once again locked in argument over export credit rates.

Recurring problem needs lasting solution

Export finance

MARGARET HUGHES

ONCE AGAIN the world's major exporting countries have failed to agree terms for renewing the so-called gentleman's agreement or consensus on export credits. Talks in Paris last month between the 22 members of the Organisation for Economic Co-operation and Development (OECD) broke down after two days because of serious differences both within the EEC and between it and the U.S. and Japan.

The consensus sets minimum interest rates charged on officially supported export credits to recipient countries as well as minimum downpayments which tha borrower has to pay and maximum loan repayment periods. The rates vary according to three classifications of country based on national per capita income.

The overall impasse remains much the same as always, although the arguments bave changed with the general decline in international interest rates since last summer, when after much acrimony new consensus rates were agreed which raised the rates for the two richer categories of country.

Ever since its inception the dispute within the consensus has been over wbether rates should be raised and if so by how much in relation to market rates. The central issue has been the burden of interest rate subsidy whereby governments make up the difference between export credit rates and commercial rates. Last year it was estimated that such subsidies cost the governments of the main exporting countries some $6bn. The British Government's bill last year amounted to some £587m.

But this time the debate is over how much consensus rates should be lowered, for with the lowering of interest rates since last summer export credit rates, at least for the better-off borrowers, are either parallel with or below market rates, even in the U.S. and Britain. The only countries where domestic commercial rates are higher than consensus rates are France and Italy.

The present consensus rates are 10 per cent for the relatively poor countries (based on World Bank and IDA poverty criteria), of which there are about 70; 10.85 to 11.35 per cent, according to the length of the repayment period, for intermediate countries and 12.15 to 12.4 per cent for the relatively rich countries—i.e., those whose national per capita income is $4,000 or over.

During last month's negotiations the EEC proposed that the existing rates be reduced by between 0.5 and 2 per cent—with the French, with high domestic rates and a traditional penchant for subsidy, pushing for the bigger cut, backed by the Italians. The EEC proposed the 2 per cent as its opening gambit, though within the EEC there is a wide divergenca of views. The W. Germans and Dutch, backed by the Danes, want at most a 0.5 per cent cut, while the British are somewhere in the middle, opting for a 1 per cent cut but with perhaps a bigger drop on rates to tha poorer nations.

These suggestions were rejected out of hand by both the U.S. and the Japanese, with the latter calling for a reduction, resisted by the others, in the premium which it bas to charge on its export finance. At present the Japanese have to charge a margin of 0.3 per cent over the blended rate of its export credit and commercial credit which make up the conventional Japanese export finance package. Tha U.S. as usual wants to eliminate subsidies altogether, so would like to see export credit rates in line with commercial rates, though it would like to offer maturities which are longer than those allowed by the consensus.

Compromise

In an attempt to get its 2 per cent cut accepted, and perhaps like everyone else weary too of the eternal wrangling, the EEC has come some way towards the American insistence that export credit rates should directly reflect the market rates in the exporting country and as such be adjusted automatically with a compromise proposal.

It suggests a semi-automatic system whereby the consensus matrix of rates would be adjusted at fixed intervals to reflect any changes in commercial rates. The benchmark would be the weighted average of the interest rates of the currencies in those countries participating within the consensus or alternatively those currencies which make up the IMF's special drawing rights.

An additional dispute this time is the U.S. call for an increase in the down payments which the relatively rich countries are required to pay. It wants the present level of 15 per cent raised to 40 per cent. The U.S. also wants to eliminate the financing of local costs. These proposals are seen as another attempt by the U.S. to curb subsidised credits to the Soviet Union and other East European nations.

The U.S. achieved some tightening up of credits to the Soviet Union during the last round of negotiations. When the present consensus interest rates rises were finally agreed at the end of last June after two months haggling so too was a reclassification of borrower countries—for the first since 1976. Some countries, such as Algeria, Brazil, Chile, South Korea, Mexico and Nigeria, many of them major buyers of plant and equipment, were upgraded from the poor to intermediate category. But also upgraded from intermediate to relatively rich countries were the Soviet Union, along with East Germany and Czechoslovakia, raising both the interest rates which they had to pay on export credits and shortening the repayment period.

The U.S. had initially attempted to achieve a freeze on all subsidised credits to the Soviet Union as part of its embargo following the imposition of martial law in Poland. But after receiving a hostile response to this (on top of its attempts to block supplies of European equipment for the Siberian gas pipeline project) the U.S. then pressed for quotas for credits to the Soviet Union based on historical performance. This proposal was also rejected by the other trading partners but prompted a counter proposal by West Germany that down payments should be increased—a proposal which the U.S. has now put forward itself in the present round.

Whether this gains much support remains to be seen. Apart from the upgrading of the Soviet Union as part of an overall reclassification—which has made borrowing more expensive for the Soviets—all the U.S. got from its Western partners at the Versailles summit was a somewhat ambiguous commitment to commercial prudence in limiting loans to the Soviet Union—ambiguous because it has been left to each government to judge what is prudent.

As it happens there has been a reduction in lending to the Soviet bloc but that has perhaps more to do with bank caution arising out of the Polish and Rumanian foreign debt situation.

The same applies to many of the Western world's main export markets such as Latin America and Nigeria, all grappling with economic crises with resultant cutbacks or delays in development projects and thus export finance opportunities.

At the same time banks and export credit agencies alike are hampered by the high levels of their outstanding debts in such countries or credit ceilings which cannot be raised in the present environment, however much for their different reasons—jobs in the one case, lending margins in the other—they may want to keep the doors open to these export markets. Debt rescheduling is as much about keeping the banks in business and people in jobs in developed countries as saving the developing world's economies.

The international horizons of portfolio management are potentially breathtaking

London banks see portfolio boom

IT ALWAYS seems to come as a surprise to an indigenous investment community to learn that fund managers abroad are prepared to take more than a passing interest in the prominent stocks which make up that local stock market.

Nota the recent Wall Street interest in the likes of Imperial Chemical Industries and Glaxo. Note, too, the important positions which New York arbitrageurs are taking in salient UK bid contests such as Anderson Strathclyde and, if rumour has it right, in Tbomas Tilling.

Surprise there may be, but the professionals wbo make up the bourses of every sophisticated financial capital know full well that investment in times of relaxed exchange controls and erratic currency movements bas become a truly international exercise. More to the point, the universality of investment management is sure to increase.

International portfolio management is a spbere which the investment and merchant banks are coming to dominate. It is not enough these days to look solely to act for domestic clients. The international horizons are potentially breathtaking. Not only is there a vast source of additional fees to be tapped but international investment surrenders more knowledge of international trade and puts domestic investments in a fitting global context.

Tha ability to talk knowledgeebly, and invest accordingly, abont U.S. defence industries, Japanese electronics, West German vehicle production or UK composite insurance is no longer an ancillary service for clients but a pre-requisite of an all-round international product. The rewards for bundling this type of expertise, stamped and labelled with the right type of investment track record, into an acceptable portfolio package are coming to London in general and the merchant banks in particular.

There are two prominent reasons wby the London accepting bouses should look forward to a vast expansion of funds under their management. The first is due, as mncb as anything else, to language, history and geography.

London investment managers can be as parochial as any others but it is a matter of history that many of the leading companies which make up the stock market have always traded throughout the world.

True, much investment was concentrated in the Old Commonwealth, but the gradual harmonisation of the European Community and the abolition of exchange controls have seen an outpouring of UK investment funds.

It is a coincidence of geography that Greenwicb Mean Time is the best balfway bouse between differing time zones and it is additionally belpful that the professionals of Wall and Tbrogmorton Streets share a common language.

And the merchant banking fraternity is truly international. For ell that tba Loodon Accepting Houses are determinedly UK owned, these banks include on their extensive client lists, sovereign states, overseas utilities and blue chips.

But the thrust of the growth of international portfolio management has come from the U.S., not from Wall Street but from a federal law, the Employment Retirement Income Security Act (ERISA), which compelled fund trustees to seek the best globel return on the funds with which they were entrusted.

That meant that investments outside the Dow-Jones had to be considered, be it real estate, energy, management buy-outs, or ICI, Peugeot, Mitsubishi, BMW or, simply, the pound, the yen or the deutschemark.

Word has spread, and is spreading, rapidly among U.S. pension fund trustees. Wall Street and other indigenous investments are not necessarily the best place to commit 100 per cent of a fund. Ergo these other options must be explored and, where feasible, treded.

The opportunities are undoubtedly around but it would be quite wrong to suppose that ERISA has somebow laid a golden egg for the London merchant banks. Quite the reverse.

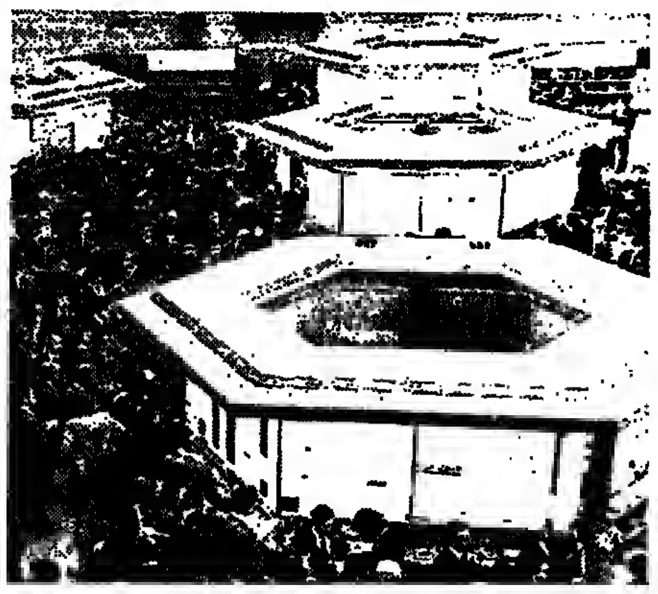
None of the principal banks—Morgan Grenfell, Warburg, Kleinwort Benson, Shroders and Barings among them—have carved out a name for themselves without an extensive overseas representation, more often an overseas partnership or joint venture and a long bard sales slog. Quite simply, the successful portfolio management have had to learn exactly wbat the client wants.

The list of the big ERISA fnnd managements bouses is by no means confined to the five merchant banks listed ebove—or indeed to the accepting houses, Ivory and Sime and G T Management have a substantial and growing nicbe, too—and the number of entrants, actual or potential, is growing almost daily.

It is not bard to see why. The ERISA funds must now total substantially in excess of $5bn and American corporate monoliths such as AT and T and Exxon are also committing some proportion of their pension funds overseas, too. And it seems, thus far, that only the most sopbisticated international companies are taking the plunge and hiring international portfolio managers.

If the vast hinterland of industrial America follows suit the pickings will be rich indeed. Tbe banks which have already taken the initiative stand to gain substantially in power and prestige provided they meet their target returns. ERISA is a relatively young pbenomenon—although the track record is not yet established, few doubt that the rewards will be fully earned.

Ray Maughan



A section of the crowded floor of tbe London Stock Exebange: The City's investment managers can be as parocbial as any others, but it is a matter of bistory that many leading companies whieb make up the stock market have always traded thronghont the world.

Rapid changes are enabling the banks to revolutionise their internal information systems and the services they offer

Swift progress in cash management

New techology

ALAN CANE

Peter Golden . . . surrounded with Apple minicomputers at the City Bank, Aldwych, London.

MR PETER GOLDEN, as pictured here, is neither a microcomputer salesman nor is he standing in the storeroom of a microcomputer shop.

He is in fact head of the technology management unit attached to the treasury group at Citibank in London and he is standing in the machine room which provides computing power to the bank's main dealing rooms.

It is a far cry from the conventional picture of a big bank's machine room—the size of a small aircraft hangar and filled with row after row of large boxes—processor cabinets, fast memory stores, high speed disc drives — and it illustrates graphically the way computer technology is changing and changing banking practice with it.

Each of the slim boxes fitted with a keyboard in the picture is a small but powerful microcomputer—they are all Apple II machines — in fact, a micro which is getting long in tha tooth but which offers well-proven performance and reliability.

Objectives

Rather than putting in a minicomputer or a small mainframe to provide the power, Mr Golden and his team have used lots of Apples—there are almost 100 of them in the building—linked together (Zynar did the networking) to form a complete system.

The idea is to provide fast and accurate information to the dealers in the two dealing rooms—interbank dealing and commercial foreign exchange.

The system has three principal objectives—to support the dealer by providing information of value in a way which is simple to use and to capture deal data; to support treasury management by providing concise reports and clear positions and to provide support to treasury operations through printed tickets, single point of deal capture, and elimination of the maker/checker requirement.

Each dealer has his or her own Apple—it lives quietly in the bottom drawer of the dealing desk and feeds its information to one of the three Reuters screens in front of each dealer. Keyboards are not used; instead, the dealer selects what is wanted from a menu tablet secured to the desk top—a touch of a special pen on the desired item brings it to the screen.

Scornful

The acid test is whether the dealers, notoriously scornful of high technology aids and unwilling to emulate clerks by keying in their own deals, are happy with the system.

At Citibank the answer seems to be "yes." One dealer said: "It provides the information I need and it is simple to use."

Now there are plans to market the system. Mr Peter Gallant, head of Treasury Marketing, says: "We are bankers, we will deal in anything." At present the system interfaces to Citibank's own brand of back office accounting system and Mr Gallant plans to develop a series of interfaces to make the system compatible with the popular commercial packages like Midas, Arbat and Kapiti.

The Citibank development illustrates four facets of modern technological banking:

- it is true distributed processing; the bank is using complete commercial microcomputers simply as operating elements of a complex dataprocessing system.
- like many banks and other financial organisations, Citi has discovered that it has technological expertise to sell and intends to capitalise on that.
- there is general agreement that the dealing room is a priority area for automation; despite considerable investment in foreign exchange systems there seems to be plenty of scope for improvements.
- there is increasing evidence that the banks see the need to tie their various computer systems together into integrated networks.

There is no doubt that the pace of acceptance of electronics in banking is quickening. Two years ago Mr Keith Huntley, chief executive of Huntley Associates, a New Jersey-based banking consultancy, identified the key developments he expected in wholesale banking technology.*

They included integrated information systems where data base and data base management systems are tied together to provide information to on-line applications, internationally distributed data base systems—the means for the manager of, say, a Far East branch to examine the bank's position world-wide from a terminal in his office.

He also foresaw the rapid development of international banking communications networks, money transfer systems to process messages transmitted through the national and international wire transfer networks, and corporate cash management systems — "electronic links between the banks and its corporate customers" as one computer specialist put it.

Of all the areas, cash management has shown the most spectacular progress. Citibank was among the first with Citi Cash Manager (for dollar accounts) and then Citi Banking, which provides multi-currency cash management service including balance summary, account statement and advices, money market securities and cash availability projection summary and details.

The other large U.S. banks —Chase Manhattan, Bank of America, Chemical, Morgan Guaranty — all have their own offerings. Chemical, indeed, is perhaps the best example of the trend to the franchising of electronics expertise among the banks.

Franchised

Its Chemlink cash management system is the foundation for Banklink, a package which it has now franchised to a number of other banks including First Interstate of Washington and Banc One of Columbus Ohio. Among European banks its customers include Commerzbank of Frankfurt; in the UK Barclays and the Bank of Scotland are expected soon to announce services based around Banklink.

These systems allow customers to keep track of their cash in all their accounts worldwide and indeed to "outbank the bankers." Where is the profit for the bank? There is precious little in the fees, for these are often nominal—less than $1,000 a month in most cases. There is some revenue to be made too from providing clients for the large commercial data networks, such as Geisco's Mark III which provide the communications for cash management.

But the hard fact is that for most banks cash management is a necessity simply to stay in touch in the technology race. Without such a system the door to lucrative business could simply be closed to them.

What is arousing most interest now is integrated systems, all the banks' major applications running on information provided from a common pool of data.

To be frank, such complex software is only in the earliest phase of development. Some banks are developing their own; more commonly they are turning to software houses like Anacomp of Indianapolis and Hogan Associates of Dallas.

Some idea of the risks involved in the development of this software is the fact that both Anacomp and Hogan set up partnerships with leading banks to raise development cash.

Anacomp, for example, last year announced a massive research and development partnership to fund its Corporate International Banking System (CIBS). Some $23m has already been subscribed; the total cost could be $35m.

The world's leading banks have to stay in the technology race—but nobody is pretending the costs—or the risks—will be low.

Wholesale Banking Information Systems Market, Frost and Sullivan, 1981.

DIVIDEND DAY AT THE BANK.

New technology is sweeping away the old image of the banking world, typified here by a drawing of dividend day at the Bank of England in 1842. Today, according to one senior banker, "the banking world is now facing an electronic earthquake." The Financial Times examined these developments in detail in surveys on "Electronics in Banking" on Wednesday, March 30, 1983, and "Computers in Business" on Monday, April 11, 1983.

graph option. As a quid proquo would be increased. Any ...

New operators continue to move into the market place in a sector dominated by U.S. demand for the services

Building societies join in

Travellers' cheques

JEFFREY BROWN

FOR A CASH transfer system reportedly facing redundancy at the hands of the credit card, the traveller's cheque business looks remarkably healthy. American Express has just put the finishing touches to its new $35m cheque headquarters in Salt Lake City; banks report steady growth in demand and the market place continues to absorb new operators.

Over the past 12 months or so the spicier stories have centred on Europe, with the troubles at Thomas Cook, the travel services offshoot of the Midland Bank, and entry into the travellers cheque business of a number of UK building societies. But the great bulk of the cheque business continues to be transacted on the other side of the Atlantic, with dollar travellers cheques accounting for at least three-quarters of the global total.

America's banking regulations — limiting individual banks to trading within strictly defined state lines—underpin an extensive business in traveller's cheques in the U.S., variously estimated at between $35bn and $40bn a year. Most cheques, something like two-thirds, are for purely domestic consumption as customers seek to fuse a degree of national co-ordination into their banking system.

The recent rescue of Seafirst Corporation by Bank of America may have created a precedent and allowed the first-ever inter-state bank acquisition in the U.S. but for the moment banking regulation in America remains deeply entrenched. Against this background American Express for one sees little or no let-up in the expansion and growing sophistication of the traveller's cheque business.

Banks are sensitive about market shares and claims on this score by both the industry and outsiders vary alarmingly. But American Express is generally reckoned to be the largest trader, with around half the world market. Bank of America and Citicorp are also major players while in Europe the big league in traveller's cheques takes in Barclays Bank and Thomas Cook.

Breaking with traditional policy to operate alone, American Express has linked up recently with banks in France and in West Germany. In the UK it has created Travellers Cheque Associates, a company whose shareholders initially took in American Express and Lloyds Bank but which now extend to Williams and Glyn's and Royal Bank of Scotland.

TCA, as Travellers Cheque Associates is known, does not disagree too vehemently with the suggestion that it controls close on a fifth of the U.K. traveller's cheque market, worth perhaps £2bn a year. Helped by aggressive marketing and starting from a small base, Lloyds Bank claims to have stepped up its travellers cheque business by n fifth in 1982, thanks to the sophistication of product that the American Express connection has brought.

Elsewhere in the UK, the National Westminster group issues its own cheques and so does the Midland bank, essentially through Thomas Cook, despite attempts to create a European cheque network. Barclays Bank provides the main international counterbalance to Lloyds' services through its links with Visa International.

Broadened

But the UK market was broadened significantly last year following the entry into the business of a number of building societies, notably the Leeds Permanent and the Leicester. The former has joined in with Travellers Cheque Associates, while the Leicester has linked up with Citicorp.

The building societies have been widening their services and the Leeds Permanent, fourth largest in Britain, is the biggest building society yet to go in for travellers cheques. Last summer it began to issue sterling cheques free of charge to customers. The Leicester deal is equally free of commission to the customer. It provides dollar cheques.

In the UK the building societies have added to the rising tide of competition. Many observers see their move to offer cheques free of sale commission, normally 1 per cent, as an initial marketing ploy aimed at getting business off the ground. Whatever their motives customers can only benefit.

People who buy traveller's cheques are in effect giving the issuers an interest-free loan which the issuer then invests as profitably as he can based on estimates of how long he will retain the money. At the end of both 1980 and 1981 American Express had around $2.5bn of cheques outstanding. The returns available on their loan float in a period of high interest rates has provided the banks with good profits on traveller's cheque operations in recent years.

The main way issuing banks compete with each other is in the terms they offer the selling agents, usually other banks. The variables are a share of the commission, discounts on the volume of business and deadlines for remittance which in effect lets the agent use a slice of the loan float.

Some banks in the U.S. have even toyed with the idea of paying interest (of a nominal character) on traveller's cheques; in some U.S. states prizes for bank tellers selling the most cheques are normal practice and everywhere the name of the selling agent is given every available commercial plug.

But the major battleground remains Europe, especially continental Europe, where the market is much less mature than in the U.S. and UK. According to one clearing bank, around 70 per cent of travellers outside tha UK take some form of traveller's cheque with them. In contrast, European visitors to the UK make more use of cash. Less than 25 per cent of Continental visitors to this country use traveller's cheques.

At one time tha Midland Bank looked on the point of a breakthrough in the European market, with Thomas Cook poised to link up with a number of German banks through major new shareholdings. But the deal fell through, although the European banks concerned have agreed to let Thomas Cook re-design its cheques with the ETC (European Traveller's Cheque) logo.

The struggle for market share has spread in recent months beyond France and Germany. Sweden is one of the more sophisticated users of traveller's cheques and it is a market on which many cheque groups have begun to focus their sights.

More than 2m Access card sales vouchers are debited to cardholders' accounts each week. Operators, above, check-out over 25,000 authorisation calls from retailers to the Access nerve centre at Southend-on-Sea, Essex.

The main thrust appears to be at the top end of the market

A good year for plastic money

Credit cards

JEFFREY BROWN

LAST YEAR was one of the best ever for the credit card business—and it looks as though 1983 is capable of maintaining the heady pace. Interest rates fell steeply world-wide last year and retail spending picked itself up off the floor in a number of leading economies. The various card groups have continued to expand their membership.

In the UK alone last year the number of plastic cards of all kinds—credit, travel and entertainment and in-store cards—expanded by more than a fifth to close on 20m. Of this total, bank-based cards accounted for around 14m or almost 75 per cent. This sort of growth has been fairly faithfully mirrored elsewhere in the world, helped by increasing card specialisation and a constant stream of new products.

The main thrust of the product planners continues to be in premium or gold cards. The rash of gold cards threatens to become an epidemic as one by one the banks scramble to service the top end of the market—and presumably plug into the higher available profit margins. In the UK the so-called "status" card tends to be reserved for customers earning £20,000 and more annually.

American Express started the ball rolling and the trend quickly spread through the tentacles of the two major card groups with international links, Visa and Mastercard. Even Trustcard, which is part of the TSB, a group proud of its popular banking heritage, is rumoured to be on the verge of launching its own version of a gold card, probably by midsummer.

Expansion

But new products are only part of the credit card boom. Tha main impetus to growth has been the successful expansion of conventional lines of business. There are now no fewer than four separate UK banks issuing their own Visa card, not counting variants of Barclaycard, and even more Access issuers. At the end of 1982 Barclaycard led the UK market with 6.5m cards in issue. Access waa right behind with 5.6m.

Equally gratifying though for the banks has been the continued downward movement in interest rates, coupled with a revival in retail spending. Even in W. Germany, where credit card usage tends to lag behind the rest of the world, card groups have begun to rub their hands in the wake of an 8 per cent upturn in 1983 first quarter sales by department stores.

Retail volume is critical to card profits since the banks take a percentage of each individual transaction. The percentage varies widely, depending mostly on the level of card business undertaken by a retailer. Credit card groups tend to charge less than the travel and entertainment card operators like American Express and Diners Club and are also inclined to cover the retailer's debt more quickly.

An Access transaction in the UK, for example, can be covered by the retailer in a matter of days, whereas the time lag for travel and entertainment card payments to work their way through to a restaurant or a hotel can extend to several weeks.

At Trustcard the retail charge is reckoned to range between 2½ per cent and 5 per cent per transaction with special arrangements for major card users, say British Rail or a big store group. Trustcard reviews its charges annually and has something like 150 full-time service personnel paying regular calls on shops and stores.

Other major sources of revenue for the card groups are debt overruns by the card holder and the charges the banks levy on cash withdrawals—irrespective of the condition of a customer's current account. At Trustcard some 15 per cent of card turnover is in the form of cash withdrawals and the group reckons that only 40 per cent of users repay the whole of their debt at the end of each month.

Logjams

In the UK the credit card groups survived a recent skirmish with the retail trade when the Government ruled against the surcharges imposed on credit card users by garages. Originally the Monopolies Commission had ruled that retailers should be free to impose surcharges where customers sought to acquire goods on credit. But this was eventually overturned by the Minister for Consumer Affairs, Sally Oppenheim.

Dissent continues to rumble away. The supermarket trade manages to steer clear of credit cards by claiming logjams at checkout desks. Marks and Spencer says that its policy of returning cash on unwanted purchases could not operate on credit card transactions.

Conservative bankers often have mixed feelings about credit cards. At ona level they represent direct and important contact with the public, helping to cement customer loyalty and putting the name of the bank before the retail trade. They are also highly profitable in most parts of the world. But from a strategic standpoint they also represent change—and rapid and costly change at that.

Credit cards sit at the very sharp end of retail banking technology and as such are a constant and sometimes uncomfortable reminder of the way cash transfer systems are rapidly evolving in an industry where the search for more cost-efficient trading is propelled along by intense competitive pressure.

In the U.S., where the average credit card holder has a wallet stuffed with eight separate cards, the development of automated teller machines (ATMs) has reached the stage where some banks feed 16 lanes of traffic into drive-in remote banking terminals. The use of plastic money outside America is far less widespread but time is pointing directly at a one-way trend.

THE UK CARD MARKET

	Number (m)
BANK-ISSUED	
Access	5.6
Barclaycard	6.5
Trustcard	1.8
Snb-total	13.9
TRAVEL AND ENTERTAINMENT	
American Express	0.7
Diners Club	0.3
Others	0.1
Snb-total	1.1
STORES	4.5
ALL CARDS	19.5

Source: Industry estimates

WORLD BANKING VIII

NORTH AMERICA: reports from William Hall and David Lascelles in New York and Nicholas Hirst in Toronto.

Moves to curb U.S. bank lending overseas

U.S. BANKS are beginning to feel more confident that a way out of the international debt crisis is unfolding, but they are also uncomfortably aware that if the U.S. Congress has its way, then their problems are only just beginning.

There is a very strong feeling among the U.S. politicians interested in financial affairs that the U.S. banks should be taught a lesson for becoming so heavily involved in lending to Third World countries.

Many would like to see legislative curbs imposed on U.S. banks' foreign lending as a quid pro quo for agreeing to the $8.4bn increase in the U.S. contribution to the IMF which many regard as nothing more than a "bail-out" for errant U.S. banks which over-extended themselves in lending to Third World countries, many of which are no friends of America.

The situation is very fluid and has been complicated by the banks' apparent success in persuading politicians to block an administration effort to impose the withholding taxes on dividend and interest income.

The new tax would involve the banks in a lot of paperwork and extra costs. Politicians appear to feel that the U.S. banks have "won" on this score and have used up their credit with Congress. In return, they should be made to "pay-up" on the question of controls on their foreign lending.

At the beginning of April, the three bank regulatory agencies, the Federal Reserve, the Comptroller of the Currency's Office and the Federal Deposit Insurance Corporation, presented a five-point programme to Congress which would strengthen supervisory practices relating to U.S. bank lending overseas and would also prevent excessive concentrations of credit in foreign countries.

The main elements of the programme were: a strengthening of the existing programme of country risk examination and evaluation; increased disclosure of banks' country exposures; a system of special reserves; supervisory rules for accounting for fees; and strengthening international co-operation with foreign bank regulators and through the International Monetary Fund.

The key to the regulators' proposals was that considerable discretionary power would be left to them. The banks are not at all happy about several provisions in the regulators proposals, especially the talk about special reserve requirements.

In testimony to the House of Representatives' Banking Sub Committee, Peter Read of First National Bank of Boston, estimated that if the regulators' proposals had been in force when the Mexican restructuring was being agreed more than 100 of the 575 U.S. banks that agreed to reschedule Mexican debt would have dropped out.

His point has been echoed by many U.S. bankers who argue that any tightening of controls on their foreign lending will just accelerate the speed of their withdrawal from this market.

Assuming a modest world economic recovery, the major developing countries will need approximately $70bn of new money between now and 1985. And, at the moment, no one is putting up any new money, except when they are having to do so involuntarily as part of an IMF inspired rescheduling where the banks have little choice but to do what their central banks order.

Whilst the regulators' proposals were not to the banks' liking they at least gave some flexibility.

However, the senate banking committee asked for the proposals to be put into legislative form and after toughening up the capital adequacy part of the Bill, agreed to the legislative proposals.

The spotlight has now turned to the House of Representatives where up to three separate sub committees of the House Committee on Banking, Finance and Urban Affairs, are discussing the subject.

Just what sort of legislation will emerge from the House of Representatives is unclear at present, but there is a common feeling among both the Right and Left wing politicians that if they are going to vote for the IMF quota increase, the banks are going to have to be made to pay in some way.

Right-wing Republicans are not at all happy about the IMF and the way it uses its money to prop up America's enemies. The populist politicians are concerned that the IMF money will be used to bail out the U.S. banks which have few friends in small town America.

Meanwhile, the U.S. Administration, whilst it opposes strict curbs on U.S. bank lending overseas, is not in a strong position to veto any proposals which have widespread support among Democrats and Republicans, if it wants to win congressional support for the IMF quota increase.

William Hall

It could be some time before Canadian banks return to the rapid expansion of the past decade

Guarded optimism as outlook improves

Canada's banks

NICHOLAS HIRST

CANADA'S BANKERS are in a more relaxed and confident mood than they were a few months ago. The defensive tone of the annual reports to shareholders for the fiscal year to October 31 has changed to a guarded optimism.

Last year, as Mr Rowland Frazee, chairman of the Royal Bank, one of the big five Canadian chartered banks, put it in his message to shareholders, was "a year to test our mettle."

Loan losses of the big five, the Royal Bank, the Canadian Imperial Bank of Commerce, the Toronto Dominion, the Bank of Montreal and the Bank of Nova Scotia, rose 166 per cent to C$2.2bn and non-productive loans on which interest had not been paid for 90 days or more soared from C$1.8bn in 1981 to C$6.1bn.

Rising bankruptcies hit domestic business lending while internationally the Canadians, in common with other major banks throughout the world, had to deal with a looming liquidity crisis.

In the first quarter of the present fiscal year provisions for loan losses have continued to rise but falling interest rates have improved lending margins and profits have improved.

First-quarter net profits of the Canadian Imperial Bank of Commerce were up 23 per cent on the corresponding quarter at C$74.2m, the Nova Scotia's profits were 61.5 per cent higher at C$102.8m and the Royal Bank saw a 39 per cent improvement to C$112.4m.

The worst would seem to be over. The Bank of Nova Scotia, which with 54 per cent of its assets in foreign currency has a higher exposure to international risks than the other banks, increased its loan loss provision by C$9m over the fourth quarter to C$48.6m but does not expect the figure for the year to exceed that of 1982.

Mr Frazee, on the announcement of the first-quarter results, said he was "optimistic that a general economic recovery is commencing and that its effects will be reflected in the bank's earnings performance."

It could be some time, however, before the Canadian banks return to the rapid expansion of the past decade. Since September 1981 the banks have cut back sharply on new lending and asset growth which, for the previous 10 years, had grown at an annual rate of 21 per cent, has been negligible.

Businesses are concentrating on repairing their balance sheets and have been taking advantage of a rising stock market to issue new equity.

On the back of the economic recovery, bankers see some firming of loan demand later in the year, but they have become more cautious. Special teams have been created to look after problem loans.

There has been a tendency to withdraw from the decentralisation of the past few years to concentrate decision making in Toronto. In some cases loan authorisations have been cut back, in others lending conditions have been toughened.

The Canadian banks' expansion had been across a broad base, but it left them exposed in areas which had once seemed sound.

The presence of many subsidiaries of American corporations in Canada and growing trade with the U.S., led to the building up of large U.S. dollar deposits with Canadian banks.

These naturally occurring offshore deposits led the Canadians into early participation in the eurodollar markets. Foreign currency lending grew more rapidly than the rest of the banks' business.

In 1971 foreign currency assets of the chartered banks amounted to 28 per cent of the total. Ten years later they had grown to 40 per cent. Initally the banks lant to their traditional base in the Latin American and Caribbean countries.

The Royal Bank and the Bank of Nova Scotia have had operations in the area since the 19th century, running retail branches, and, at one time, financing the colonial trade in rum, sugar and timber.

The Nova Scotia, which retains its registered headquarters in Halifax had an office in Jamaica before it opened in Toronto.

More recently, expansion continued into Asia and the Pacific rim and into the United States. With the realisation that the Canadian Government was going to allow foreign banks to establish subsidiaries in Canada for the first time, the Canadians move smartly for business across the border.

If American banks were going to compete on the Canadians home ground for the business of U.S. subsidiaries, the Canadians decided they should compete for the business of their parents.

While lending to the Latin American and Caribbean countries has continued to rise, lending in the United States, has risen far more dramatically. The Toronto Dominion's lending across the border increased from C$1.4bn in 1980 to C$4.0bn last year and the Bank of Montreal's U.S. assets grew from C$7.6bn to C$11.3bn in the same period.

CANADIAN BANKS
First quarter ended January 31
(Can$m)

	Net profits 1983	Net profits 1982	Assets 1983	Assets 1982	Loan loss provisions 1983	Loan loss provisions 1982
Royal Bank	112.4	80.7	86,886	87,764	113.8	63.0
Bank of Montreal ...	74.4	70.2	63,536	62,862	108.6	64.8
CIBC	74.2	60.2	68,262	66,931	96.0	60.5
Nova Scotia	102.8	63.6	53,725	51,863	48.6	27.5
Toronto Dom	85.6	86.0	44,565	44,418	35.0	24.6

Source: Unaudited quarterly statements.

A tenth of the Canadian banks' foreign assets are held in the United States while nearly a fifth are held by Canadian residents. Exposure to the troubled economies of Mexico, Brazil and Argentina is nevertheless significant.

Toronto stockbrokers Wood Gundy, estimates that total gross exposure to the Latin American and Caribbean countries at C$22.5bn, slightly over 6 per cent of total assets.

But taking account of compensating cash balances and guarantees, and in the case of the Royal and Nova Scotia, retail deposits, the net exposure may be only half as much.

Domestically property lending has proved more of a problem than the well-publicised problems of the oil and gas sector. In the West, commercial property speculation took off with the oil boom, but throughout the country the recession has left buildings without tenants and rising interest rates have made a nonsense of cash flow calculations.

But it was lending on large single loans to the oil and gas sector, which threatened to damage the Canadian banks' strong international reputation. The most worrying was the C$4bn of loans from four of the big five, the CIBC, the Bank of Montreal, the Royal and the Toronto Dominion to Calgary-based Dome Petroleum.

Neither the banks nor the Canadian regulatory authorities want such large exposure to single loans to occur again. A House of Commons committee has suggested single loans be limited to 25 per cent of capital reserves and in March, Mr William Kennett, the inspector-general of banks, sent out a discussion paper on capital adequacy.

Canadian bankers feel that they received unfair criticism the lead lender to Dome, is now that their exposure to lending outside of North America has been exaggerated.

They have always made the point that their lending to Dome was fully secured. But there is no doubt that 1982 was a chastening experience. Falling interest rates have provided welcome relief.

Progress of International Banking Facilities—a major innovation of recent years—has been followed with interest. After 18 months a clear-cut verdict has yet to emerge.

Little impact so far on international scene

New York's international banking facilities

WILLIAM HALL

WHEN THE first International Banking Facility (IBF) of a U.S. bank opened for business on December 3 1982 there were very real fears in some quarters that the move heralded the beginning of the end for London as a major offshore financial centre.

The concept of having an offshore banking zone in New York and other U.S. cities had been discussed for several years. The basic objective was to increase the international competitiveness of U.S. banks and enable them to attract some of the international banking activity which was being conducted in overseas centres, particularly the Caribbean centres of Nassau and the Cayman Islands.

Foreign role

The IBF was designed to be a vehicle which would be freed of several restrictions which hamper U.S. banks. It would accept time deposits from foreign customers free of reserve requirements and interest rate ceilings. It was also to lend to foreign residents and not U.S. residents. In many respects it was structured to function like the foreign branch of a U.S. bank, the only real difference being that it would be based in the U.S. and employ U.S. staff.

IBFs were also exempted from paying deposit insurance and were not liable to the various regulatory assessments imposed by the Federal Deposit Insurance Corporation. Finally, several states added to the attraction of establishing an IBF by passing favourable tax laws.

The overall purpose of the U.S. authorities in allowing IMFs to be established was to enable U.S. banks to do offshore banking business from the U.S. in a regulatory environment similar to that of the Eurocurrency market but without having to use an offshore facility. The main elements of an IBF's business are as follows:

● An IBF's loans and deposits are restricted to foreign residents (including banks), other IBFs and the entity establishing the IBF. Lending to or accepting deposits from any other U.S. resident is prohibited.

● Limits are placed on the maturity of "IBF time deposits" which may be in the form of deposits, borrowings, placements or similar instruments.

● Transactions with non-bank customers are subject to a minimum of $100,000.

● IBFs are prohibited from issuing negotiable instruments because they could be transferred by the original holder to U.S. residents who are not eligible customers of the IBFs.

● An IBF can lend to a foreign non-bank customer only if the proceeds are used to finance operations of the borrower or its affiliates outside the U.S.

● IBFs may engage in limited kinds of secondary market transactions. They can purchase and sell IBF-eligible assets such as loans, loan participations, securities, certificates of deposit and bankers acceptances from or to any domestic or foreign customer except domestic affiliates of the establishing bank.

While the IBFs have been given many of the freedoms associated with the overseas branch of a U.S. bank, it is generally agreed that the limitations on their permissible range of activities are more restrictive. The latter can, for example, accept deposits from and make loans to U.S. residents.

Since the IBF law was passed, virtually every major U.S. bank, many regional banks engaged in international lending and a host of foreign banks have set up IBFs. By last September nearly 400 banks had IBFs and the numbers are still growing. To put this in context, the numbers of IBFs in the U.S. now roughly approximates to the number of foreign banks represented in the City of London.

It is still too early to judge whether the IBF initiative will flourish. It is a subjective judgment, but after the first year and a-half, the IBFs appear to have performed somewhat better than the pessimists thought possible. Yet their success still falls short of some of the heady claims being made during the formative stages.

The U.S. IBFs today boast assets of around $180bn and have become a part of the worldwide Eurocurrency market. But they remain rather passive in terms of business creation and they have not had much of an impact on the centre of gravity of decision making in the international financial market. They are very much book-keeping operations rather than independent banks in their own right. A few figures give an idea of how they have developed.

THE GROWTH OF IBFS

		Assets ($bn)	Numbers
1981	Dec.	64.3	116
1982	March	102.3	180
	June	134.1	199
	Sept.	155.7	222
	Dec.	167.0	246
1983	March	181.0	269

Source: U.S. Federal Reserve Releases. Data relates only to IBFs with more than $50m of assets.

The real growth in the IBFs occurred in the first six months of their existence when a considerable amount of business was transferred on to their books. But while there are now well over 400 IBFs the number which can boast assets of more than $50m (which means they are obliged to file weekly reports) is considerably smaller.

Main centres

At mid-April last there were 289 IBFs which were big enough to report weekly data to the Fed and some 142 of these were located in New York. California is the next most important centre for IBFs, followed by Florida, Illinois and Texas. The rest are scattered over more than a dozen other U.S. states.

An idea of the slowdown in the growth in numbers of IBFs can be gauged from the fact that during 1982 the number of IBFs with assets of over $50m more than doubled to 246 but since then only 23 more banks have moved into that category.

In terms of physical numbers the biggest single category of IBFs are those belonging to foreign banks. The latter operate 180 IBFs with assets of over $50m compared with 41 operated by the big U.S. banks. However, the average size of the IBFs of U.S. banks ($1.7bn) is more than three times the average size of the foreign-owned IBFs.

The growth in assets of the IBFs has slowed down considerably after the initial surge. In the first three months of 1983 the growth in IBF footings was 8.3 per cent compared with the quarter immediately preceding.

Total dollar volumes are slightly misleading indicators of IBF importance. Many of them rely to a significant extent on their parents for funding and a better benchmark is the size of the IBFs' claims on unrelated parties. These totalled $153bn at end-March last against $143bn at end-1982 and $92bn a year ago.

The biggest single element of the $153bn of IBF assets with unrelated parties in interbank lending, which totalled $63bn at end-March. The next biggest item is loans to foreign residents, which totalled $37bn.

This last figure gives a clue to the sort of real lending the IBFs are doing as opposed to turning over funds in the interbank money markets. IBF commercial loans rose by 34 per cent in the year to end-March 1983. This indicates that progress has been relatively slow in building up this side of their business.

By contrast, IBF claims on other IBFs rose more than three-fold to $23bn over the same period, which indicates that an embryonic inter-IBF money market is beginning to develop.

Among the foreign banks it is clear that banks from certain countries are making far more use of their New York IBFs than others. The Japanese banks, which have never had a major Caribbean presence, for example, are the biggest individual users among foreign banks. An article in the Federal Reserve Bulletin of October 1982 noted that they accounted for nearly 60 per cent of the claims on unrelated parties of all U.S. agencies and branches of foreign banks. Italian banks are also proportionately bigger. In terms of the currency in which IBF business is transacted the U.S. dollar predominates and accounts for over 97 per cent of all transactions.

A look at the liability side of the IBFs' balance sheets, which are reported weekly to the Fed, shows that they have made progress in broadening their funding base and reducing their reliance on their parents.

In the early stages the IBFs were drawing close to two thirds of their funds from either the U.S. offices of their parents or the foreign branches of the same banks. At end of March last this had dropped to just over a third ($56bn), indicating that the IBFs are beginning to act independently of their larger parents.

Another sign

Another sign of the development of the IBF market in New York is the increasing volume of funds they are attracting from non-U.S. sources which are not banks. The volume has grown from less than $2bn at end 1981 to nearly $20bn currently.

In terms of the IBF's total liabilities to unrelated parties foreign banks funds account for 42 per cent of the total, which indicates that the IBFs are heavily orientated to the money market operations which would be expected in the early stages of the development of any new financial market. Other IBFs account for 25 per cent of IBF liabilities and other foreign sources of funding account for close to a fifth of the total. The one area where the IBFs have not been particularly successful is in attracting deposits from foreign governments and official institutions. These totalled less than $10bn at the end of March last.

The general conclusion about the first year and a half of the U.S. IBFs is that they have not attracted a large amount of new business for their owners. Most of it has been transferred from other parts of the banks' operations. However, it is early days and most observers believe that despite their relatively slow start the assets of the U.S. IBFs should soon top $200bn. Over time the IBFs are still expected to have a significant structural impact on the Eurocurrency markets, which are still heavily centred in Europe.

The rigid framework of regulation is being steadily loosened.

Reforms open up fresh vistas

U.S. banking and deregulation

DAVID LASCELLES

SUPERVISION of American banks is set to be tightened up in the wake of the international debt crisis, but, by contrast, regulation of the banking business (in the sense of do's and don'ts) is heading in quite the opposite direction. Deregulation of banking got under way in the Carter era and has been speeded up under President Reagan.

In the last two years, two major reforms have been accomplished: interest rate ceilings (on both liabilities, like bank accounts, and assets, like consumer loans) have effectively been abolished, and the division between banking and other financial services is being dismantled.

The removal of rate ceilings means that the U.S. interest rate structure has been liberalised for the first time since the early 1900s. Banks can now compete directly for the saver's dollar by offering market rates of interest: this will increase their costs but should expand their market share too, though thanks to the decline in U.S. interest rates, the cost has been less than feared. On the other hand, loans may now become dearer, and the demise of that all-American institution, the fixed rate mortgage, can be foreseen.

The removal of the stockades round banking is being achieved more by pressure of events—technological change, crises and even more impudence—than by sweeping legal reform. But the trend is clear: banks are expanding beyond banking, and others are moving into the banking business. This is confronting both bank supervisors and legislators with urgent questions, so much so that leading figures like Paul Volcker, the Fed chairman, are calling for a moratorium until things can be sorted out.

Over the last year or two, banks have moved into stockbroking—or at least the buy/sell order execution side of it which is not barred to them by the Glass-Steagall Act. (This bulwark of bank legislation forbids them to deal in or underwrite corporate securities for conflict of interest reasons.) Stockbrokers have also bought banks, getting round the law by eliminating their commercial loan business. (The legal definition of a bank is an institution that takes deposits and makes commercial loans) some states now let banks sell insurance.

Regulators have also suspended the 50-year ban on interstate branching in emergencies to allow a strong bank to take over a weak one. Last year, Citicorp achieved a long-standing ambition to enter the Californian market by buying a $3bn San Francisco savings bank. And last month Bank of America, based in California agreed to buy Seafirst, the ailing largest bank in Washington state. The days of free interstate banking may still be some way off. But these deals are clearing the way for a nationwide banking industry and—possibly more significant—the gradual concentration of U.S. banking into a few giant corporations.

Congress will be holding hearings this year on proposals to allow banks to enter new lines of business, like mutual funds, real estate, insurance broking and soon. Bank supervisors are likely to resist rapid dilution of the definition of a bank. But whatever emerges is certain to be tha thin end of a wedge that seems set to become very thick indeed.

TWELVE MAJOR U.S. BANKS
Assets and income ($m).

Rank by Assets 12-31-82		Net income 1st Q 1983	Net income 1st Q 1982	% change	Net income 1982	Net income 1981	% change
1	Citicorp	228.0	194.0	+18	713.0	531.0	+36
3	Chase Manhattan	106.1	114.8	(−8)	303.0	412.0	(−25.4)
2	Bank America	120.3	118.6*	+1.4	412.0	445.0	+ 1.4
4	Manufacturers Hanover	82.0	62.1	+32	215.0	252.0	+17
5	J. P. Morgan	117.8	86.0	+37	394.2	354.2	+11.3
6	Chemical New York	71.5	61.7	+16	240.6	215.0	+11.9
7	Continental Illinois	31.2	66.5	(−53)	77.9	254.6	(−69.4)
8	First Interstate	58.2	55.4	+5	221.2	236.1	(− 6.3)
9	Bankers Trust	61.1	53.0	+15	239.0	188.0	+27
10	Security Pacific	61.2	52.6	+16	234.3	206.5	+13
11	First Chicago	43.5	33.2	+31	136.8	118.7	+15
12	Crocker National	16.1	18.1	(−10.5)	71.6	62.9	+13.8

* This does not reflect change in account policy cumulative effect on prior years

THE MIDDLE EAST: anxious time for Bahrain's offshore banking market.

Tough year ahead for offshore units

Bahrain

MARY FRINGS

THIS PROMISES to be the toughest year so far for Bahrain's seven-year-old offshore banking market, as the anxieties of recession and the international debt crisis are compounded by the oil price effect on regional business, and specific problems relating to Saudi Arabia and Kuwait.

The threat of Saudi withholding tax is still a cloud on the horizon, but SAMA restrictions on syndicated lending in Saudi riyals are already taking effect. Meanwhile, smaller regional banks will be shivering in the draught of over-reaction to the Kuwaiti stock market crash, if treasury managers sitting in U.S. and European capitals put a generalised squeeze on bank lines to the Middle East.

Most of the locally-based offshore banking units (OBUs) showed good results in 1982 and were able to strengthen their reserves, but market volume began to fall off in September from a peak of $61bn.

By the year-end, assets and liabilities of the 72 OBUs reporting to the Bahrain Monetary Agency (BMA) stood at $59bn and the latest available figures (February: $56.3bn) show a continuation of the downward trend.

Aggregate profit was in the region of $450m, but almost half of it was earned by just four banks, leaving the remainder to be very thinly spread. The BMA does not disclose individual results for offshore branches of foreign banks, although it publishes statistics on the domestic market.

OBU managers are prone to suggest that 50 per cent of their competitors are in the red, but there are no signs of imminent departures. Security Pacific is scaling down its foreign exchange and money market operation, but this is part of its own rationalisation programme, rather than through disillusionment with Bahrain.

While the ability to put on assets will inevitably be restricted in 1983, this may, in fact, be a healthy brake on the rapid development of such banks as Arab Banking Corporation (ABC) and United Gulf Bank (UGB).

The latter started the year with an asset base of only $410m, which accounts for the unusually high return on average assets ratio of 5 per cent. The bank itself publishes a figure of 3.5, based on total assets at year-end.

Among the newcomers, the 100 per cent Arab-owned Al-Ubaf International is already in the market and Bahrain Middle East Bank (which has an 11 per cent stake in Grindlays Holdings and representation in London through a small licensed deposit-taker) is bringing its staff and systems together with remarkable speed; in this it has been more successful than Bahrain International Bank, which parted company with its first general manager after only six months.

Investcorp has withdrawn from the limelight while it pursues its carefully planned development strategy, and the Bahraini - Kuwaiti Investment Group, which was awarded an investment banking licence at the end of 1981, has yet to establish an operational presence in Bahrain at all.

The supervisory responsibilities of the BMA now extend to 17 financial institutions, including Arlabank International which recently restructured its operation and switched its headquarters from Lima to Bahrain, the five major offshore banks listed in the table, and the three locally-owned domestic banks, of which two have important offshore business (amounting to 40 per cent of the total, in the case of National Bank of Bahrain).

All banks licensed in Bahrain, including branches of Bank of America, Chase, Citibank, the four London clearers and leading banks from Europe, Asia and Latin America, are required to submit monthly returns to the BMA, which since December has improved its reporting system to permit better country and sectoral risk analysis.

At the same time, the agency imposed more stringent controls on banks under its direct jurisdiction, which account for some 30 per cent of market volume, and has instituted regular prudential meetings between management and BMA supervisory staff.

One view of the SAMA circular issued in January, which has caused so much apprehension in the Bahrain market, is that it, too, is essentially a prudential measure to protect the interests of Saudi domestic banks, and to curb the outflow of funds from the Kingdom.

The circular reminds Saudi banks of a previous requirement to seek SAMA permission before inviting foreign banks to participate in Saudi Riyal syndications, or before themselves participating in any syndication arranged offshore.

There has always been a list of approved banks, and SAMA has always sought to prevent the internationalisation of the Saudi riyal: in that respect the move towards tighter control is not specifically directed at Bahrain, although some bankers fear the departure from SAMA of the highly-respected Abdul Aziz Al Quraishi may foreshadow a new harder line.

So far, there is no restriction on the availability of offshore riyals and direct lending is not affected, nor are syndicated facilities denominated in dollars.

But marketing officers are finding Saudi entry visas increasingly hard to obtain, which is bad news for those banks whose presence in Bahrain is heavily dependent on access to this most important of regional markets.

The managers of some foreign OBU's are also concerned about tougher attitudes towards expatriate work permits. Where overheads are high and profit margins are slim, they say they cannot afford to take on an additional Bahraini trainee every time they need to renew an expatriate visa, although "this is fine for the big local banks."

Many envious eyes have been cast on the "quite indecent" windfall profits accruing to the three locally-owned domestic banks last year, from the handling of Gulf company share issues.

In addition to healthy operational earnings, the Bank of Bahrain and Kuwait declared extraordinary income of $44m and National Bank of Bahrain $24m: a bonanza which will not be repeated this year.

Despite their excellent performance, the shares of these banks lost over 50 per cent of their market value after the declaration of dividends, as investors sought to liquify their assets in a massive loss of confidence over the oil pricing situation and the future of Bahrain's 250,000 b/d refinery, which in February was running at only 20 per cent of capacity.

Foreign banks in the United Arab Emirates are under gentle but firm pressure to reduce their presence

'Localisation' drive

United Arab Emirates

CAROLINE MONTAGU

FOR THE heavily banked environment of the United Arab Emirates (UAE) the past year has not been easy. A downturn in trading has affected the Dubai banks, while banks throughout the federation of the seven emirates continue to adjust to measures issuing from the Central Bank.

The Central Bank of the UAE, formed two years ago from the old Currency Board with greatly enlarged powers and funds, has been continuing to bring about a more ordered banking environment. With the UAE's past history of turbulence in its banking sector, including a major crisis in 1977, the Central Bank's path is not smooth. Additionally, the independent-mindedness of the emirates and their different histories make it slow for Federal institutions to achieve a consensus. But, says the Central Bank Governor Abdul Malik al-Hamar, "All the Emirates comply willingly now and our normal way in any case is to do things slowly."

Over the last year there has been evident though low key pressure on the foreign banks. This pressure began when the Central Bank told foreign banks to cut their branches to eight by the end of 1983. Banks most affected were British Bank of the Middle East (BBME), present in the UAE since 1946, and the Bank of Commerce and Credit International (BCCI), for which Abu Dhabi was almost its original home base. This Central Bank (CB) move made sense in a country where with a population of just over 1m there were 49 commercial banks and some 370 branches. It was further intended to relocate business to the locally incorporated banks.

Since the CB's original request a number of banks have reduced their branches, starting with the small and unprofitable units. Another route to compliance — and one favoured within federal and Abu Dhabian circles — has been the suggestion of "localisation," i.e., reforming the bank with majority UAE ownership.

BBME is thought to have been approached on these lines and certainly Abu Dhabi's investment institution, the Abu Dhabi Investment Authority (ADIA), has approached certain foreign banks offering to take majority shareholding in a newly constituted localised bank. Says Ghanim al-Mazrui, ADIA's director general, "ADIA decided it did not have sufficient investment in local banks. So we said to foreign banks how about ADIA acquiring 60 per cent of the equity. It's an option for them — to go hand in hand with us."

To most of the foreign banks this "localisation" pressure has not been welcome. They have commented it would adversely affect their profitability and they might be unwilling to invest as much technology and personnel under such conditions as at present. But the trend towards joint management or equity is there and confirmed also within the CB.

BCCI, with its special relationship in Abu Dhabi, has taken this course. Before 1983 it had two licences — one for the Luxembourg-based BCCI SA and one for the BCCI (Overseas) of the Cayman Islands. BCCI SA will retain its previous licence and reduce its branches to eight. BCCI (Overseas) incorporated locally in January 1983 with 60 per cent UAE ownership as BCC Emirates. The BCCI operation in Abu Dhabi and the rest of the emirates is extensive, including a close working relationship with the Abu Dhabi Ruler's Office.

Another move which has affected the foreign banks was a letter from the Abu Dhabi Ruler's Office in December, 1982, that foreign banks should pay up on an annual levy of 20 per cent of net profits. This directive referred to old agreements where this 20 per cent levy was an annual fee to the Ruler of Abu Dhabi for permission to set up banking in his Emirate. In some cases banks had paid since their establishment and some had not. Banks in Dubai have always paid.

Although in essence this not very punitive measure was part of some tidying up within the Ruler's Office, to foreign banks it seemed another straw in the wind. Now agreement has been reached that those banks which had not paid should pay their tranche for 1982 only.

The Central Bank has not confined its activities to foreign banks. It ruled in late 1982 that no bank should make advances of more than 5 per cent of capital to any director. While falling well within standard prudential banking practice this ruling has caused certain flutters, particularly among banks in Dubai that are essentially family banks. Intended both to encourage prudence and to stimulate the local banks' business, the ruling is likely to lead to more business going to foreign banks.

For the commercial banks generally 1982 was a year of slower growth but increased profits. One bank which underwent major management changes in 1982 was Khalij Commercial Bank, one of the five banks incorporated in Abu Dhabi. Khalij now has a management contract with BCCI and according to Abu Dhabi Government sources is set to do "very well indeed." Other banks showing good 1982 profits are National Bank of Dubai, Bank of Oman and Union Bank of the Middle East.

The doyen of UAE banks remains the National Bank of Abu Dhabi, majority owned by the Abu Dhabi Government and one of its principal bankers. NBAD, though 1982 figures are not yet released, apparently did very well.

In other banking activities the Abu Dhabi Investment Company (ADIC), after a long pause during management changes, is actively back in the local market. Seen as the merchant banking arm of the Abu Dhabi Government, ADIC has been active in arranging local credits including being one of the lead managers in the $190m credit for the Emirates General Petroleum Company (EGPC) for the gas distribution network for the northern Emirates. The thrust of its work will be local and regional rather than international.

The UAE's Industrial Bank began operation in March 1983 with paid in capital of Dh 200m, 51 per cent state-owned and offering low cost loans to enterprises which have at least 70 per cent local capital. A property bank is planned and the much discussed stock exchange should open late this year.

The Central Bank itself has been continuing to take on more local personnel and to achieve local professional management standards plans to open a banking training institute. Its Risk Bureau, set up in 1982, is providing an information service for banks and according to Al-Hamar is helping banks to more prudent and cautious policies. The CB's own figures showed at the end of the third quarter of 1982 a slight decline in overall assets from 1981's Dh 14.1bn to Dh 13.9bn, because of lower foreign assets (down from Dh 11.9bn to Dh 11.6bn).

As the economy develops, Saudi banks are expanding their range of services

Impressive strides forward

Saudi Arabia

BY A CORRESPONDENT

FOR SAUDI banks a new era is opening up, and it is generally recognised that it will not be as much fun as the one that has just passed.

While the changes under way in the domestic banking system are neither dramatic nor entirely unexpected, it is clear to everyone that the heady days of relatively easy profits and phenomenally high growth are over. The slowdown in government spending is translating into a greater reliance on the banks in financing working capital requirements.

Credit decisions are getting tougher as tha market spreads to small and medium sized companies lacking sophistication or track records. Both risk and cost are rising while margins are falling: earnings look tu tumble to more earthly levels this year and capital growth will almost certainly slow.

The banks, however, will be tackling this new phase of a more moderate growth with a solid base to work from, for the banking system as a whole made impressive strides last year, perhaps only just short of spectacular.

The consolidated assets of the ten commercial and investment banks climbed over the SR 20bn mark by the year end and the total balance sheet footings rose to more than SR 216bn. Five years ago it was less than a third that, about SR 70bn.

Net earnings for the year were an average 20 per cent or better over 1981, and the high rate of retained earnings helped to push the consolidated capital and reserves of the banks to more than SR 10bn. Tha number of branches rose to more than 350, with most of the expansion in 1982 occurring in the villages and cities outside the three main urban areas.

The banks also introduced an array of new products and services, with the automation of operations paving the way.

Saudi American, for instance, the kingdom's very own "go-go" bank, kept ahead of the pack with direct terminal linkups between the customer's office and the bank's own computer system. Several other banks such as Saudi British, Al Bank Al Saudi Al Hollandi, and National Commercial are rapidly catching up with the automation of their own operations.

Treasury services are also improving as automation and the advent of Reuter monitors in the dealing rooms are backing up enlarged treasury staffs. Plans are underway at two banks for automatic teller machines and electronic banking hookups with selected merchants.

Cash management and project financing advisory services are fast becoming the rule rather than the exception at the more progressive banks. Saudi American and National Commercial may soon market credit cards, following the lead of Saudi Cairo and Arabian Express, a privately owned consumer credit card company.

Most of the banks, led by NCB and SAmba, former merchant banking or international departments which put together syndicated deals worth more than $770m in the first three quartars of 1982. Saudi Investment Banking Corporation introduced a new line of products such as vendor leasing arrangements which offer borrowers an alternative means of financing capital requirements.

Such innovations will be essential if the banks are to remain profitable and if the banking system is to continue meeting the needs of a developing economy. But as the economy shifts toward the productive sectors, the traditional profit centres of the banks such as trade finance and bonding facilities are losing some of their lustre.

For instance, banks that have relied on the fee incoma generated from syndications or bonding facilities may find themselves vulnerabla to the downturn in the contracting sector since last Haj. Other banks heavily geared towards trade financing may find themselves equally vulnerable as the growth in imports is expected to decline this year.

These changes are occurring at a time when those made-in-banker heaven spreads have already been sharply narrowed. Interbank rates for marginal funds, to which most lending is pegged, have slid into the 8 to 10 per cent range after hovering in the mid to high teens for a year or more. The highly favourable funding mix of the deposits is slowing giving way as at last half the deposits are now in time rather than demand accounts.

The growth market is probably the "middle" or "second tier" market of the small to medium sized companies in the manufacturing, downstream or consumer services industries. But the lack of a solid track record or management sophistication, coupled with the higher odds of bankruptcies in a slower economic environment, is making the banks cautious. At least one Saudi-ized bank, with deep inroads into the middle market of small joint merchants or companies, is now experiencing serious difficulties with its loan portfolio.

There is, at least on paper, plenty of riyals to lend. The domestic banks have always been flush with funds and, in search of good credit risk, have often placed half their assets offshore for lack of elsewhere to go.

The problem has been exacerbated by the Ministry of Justice edict forbidding the nse of property mortgaged as collateral on loans. The banks have devised schemes of manoeuvring around the ruling, but they are clearly in a legal no-man's-land and it is baving an impact on their credit evaluation process. Indeed, credit assessment is quickly becoming the single biggest issue facing the hanks in 1983.

Despite these difficulties, the development of the domestic banking system carries enormous implications for the offshore banks in Bahrain that rely to a large degree on riyal business.

"One can bave doubts about fostering the development of institutions designed to promote capital outflows," commented Sheikh Mohammed Aba Al Khail, Saudi Finance Minister, at a conference in Dubai on banking in February 1982. Few Gulf bankers have forgotten his indication of official Saudi thinking.

The growing confidence and competence of the onshore banks, coupled with the growing regulatory prowess of SAMA to keep riyals onshore, bodes well for the future of tha suitcase bankers.

COMMERCIAL BANKS IN SAUDI ARABIA
(in m riyals)

Bank	Net profit		Total assets/ liabilities		Total deposits		Loans or advances	
	1980	1981	1980	1981	1980	1981	1980	1981
National Commercial Bank	478	591	31,030	41,457	26,967	32,695	12,246	16,144
Riyad Bank	433	512	14,069	24,178	11,011	17,874	5,418	8,389
Saudi French Bank	66	184	5,686	6,282	4,789	5,103	2,807	2,872
Saudi American Bank	109	280	7,066	7,581	6,277	6,431	4,304	4,042
Saudi Cairo Bank	117†	121	5,592	8,311	4,234	5,679	2,849	3,058
Saudi British Bank	96	115	3,566	5,475	2,964	4,557	1,929	2,194
Arab National Bank	148	217	4,247	5,182	3,538	4,239	1,762	2,177
Saudi Dutch Bank	76	121	3,281	4,261	2,571	3,593	1,455	1,570
Al Jazira Bank	53	57	2,297	3,148	2,063	2,844	1,107	1,283
Saudi Investment Banking Corporation	35	37	4,182	4,965	3,154	4,604	1,646	1,518

†15 months. Source FT

The state banks' profits have made them a target for renewed outcry in the Press

Four public sector banks face fierce criticism

Egypt

CHARLES RICHARDS

THE PERIODIC attacks in the Egyption Press on the role of foreign banks have intensified and the Press has extended its field of fire to include the big four nationalised banks after they announced profits of £E70m for last year.

The four banks—the National Bank of Egypt, Banque Misr, Bank of Alexandria and the Banque du Caire—are under attack because Egypt is an avowedly Socialist country. Calls were heard for tighter control of the banks by the Central Bank of Egypt (CBE).

Charges that the banks are milking the country are not new. A former Minister of Finance before the 1952 overthrow of the monarchy described the scene as "a cow grazing the pastures of Egypt, with its udders being sucked dry from outside."

The accusations are disingenuous. The profits of the nationalised banks accrue to the Government. The Central Bank itself already regulates all banking operations. Banks must put 15 per cent of their foreign currency holdings with the Central Bank. It is because the CBE so rigidly regulates banking operations that banks are able to make the kind of profits impossible in a more competitive market.

Because the four public sector banks have to fulfil social functions they are not run along strict cost-effective lines. To allow them to maintain a comprehensive but unprofitable branch system the CBE fixes margins on letters of credit and Egyptian pound loans as well as rates for authorisation commissions and guarantees much higher than where floating rates apply. Any reduction of these rates would hit the public sector banks hardest.

Credit ceiling

The CBE has also imposed a credit ceiling of 65 per cent or as a ratio of total deposits. This has had a greater effect on the over-extended wholly locally owned private banks than on the more cautious joint ventures with foreign partners. Because of greater risk taking Egypt has now witnessed the appearance in court of the chairman and deputy chairman of one of tha largest private banks, the Suez Canal Bank, to answer questions in a fraud case.

Other measures to control inflation include a restriction on the growth of lending to 3 per cent per every four months. This is most damaging to new banks trying to build up a deposit base.

One hank that has come late to Egypt is the Hongkong Egyptian Bank, capitalised at $20m. Shareholders are 51 per cent Egyptian, including 7.5 per cent Egyptian Reinsurance, a public sector institutional investor, 40 per cent the Hongkong and Shanghai Bank and 9 per cent Saudi interests. With extensive experience in the oil industry through its affiliates in the Far East and the British Bank of the Middle East (BBME) it is keen to attract business from oil service companies.

Other newly arrived banks include the Egyptian Gulf Bank, whose chairman, the Kuwaiti businessman Ahmed al Duaig, is also leading a group of Gulf businessmen setting up a $500m investment company in Egypt.

Other signs of the thaw in Egyptian-Arab relations is the increase in capital of the Arab African International Bank (AAIB) from $125m to $200m. Main shareholders are the CBE and the Kuwaiti Ministry of Finance, each with 42.5 per cent. The other shareholders include the Rafidain Bank of Iraq, the Central Bank of Algeria, the Jordanian Ministry of Finance, the Qatar Ministry of Finance and the Al-Jazira Bank of Saudi Arabia.

Bankers Trust Company of New York opened a new representative office in Egypt on April 6, bringing the number of banks to over 70. Foreign banks wishing to enter Egypt are likely to have to subscribe a fixed dollar capital in Egyptian currency equivalent. Half the foreign currency deposits will have to be put in the CBE for a minimum of two years at half a per cent below Libor.

Most major banks have already set np in Egypt, with the exception of major Japanese and West German banks. On February 17 Cairo Barclays changed from a 50-50 venture dealing only in hard currency to a 51-49 partnership between Barclays and Banque du Caire able to deal in local and free currencies.

Cairo Barclays, like the much larger Misr Iran Development Bank, has been mainly involved in project financing.

Warnings once again have been issued that licences may be withdrawn from banks if they do not contribute to the country's well-being.

The joint venture banks are increasingly engaged in project financing after a period in the seventies when they were mainly dealing in trade after they came in under President Sadat's open door policy.

Branch offices are able to deal in hard currency only and are finding that trade is going through a difficult period. All importers have to re-register as importers. When their cards are re-issued they will be valid for five years but no new letters of credit may be opened after May 4 on the old cards.

The idea is to reduce unnecessary imports. Egypt's import bill has been cut—but mainly because of lower commodity prices. Public sector companies wishing to obtain hard currency for imports are almost invariably obliged to go to free market to obtain their needs because of the shortage in the commercial pool. Public sector hanks charge a premium equal to the difference between the official and free market rate of exchange.

Foreign branches able to draw on external resources often undertake to reconfirm letters of credit, bnt some have cut back to reduce risk, even though Egypt's country risk rating has scarcely shifted from medium to low.

To encourage exports the Minister of Economy has also announced that exporters of certain commodities will in future be able to keep all their hard currency earnings rather than having to deposit a proportion in the banks at the official rate.

MIDDLE EAST: calm has been restored after the Manakh market collapse in Kuwait

Government action dispels crisis

Kuwait

CAROLINE MONTAGU

KUWAIT'S BANKING community must be highly relieved that 1982 is over. Last summer the Suq al-Manakh, Kuwait's unofficial stock market, collapsed spectacularly, leaving a gross open position of KD 27bn and, with a bit of luck, a net figure of just over KD 7bn—still a staggering sum. These figures are huge, the gross position being equal to about half Kuwait's accumulated foreign reserves and the net position equivalent to a year's investment income.

In a tangled web of forward trading and postdated cheques, the Manakh market built up an alternative credit structure outside the banking system. Stock in unregistered Gulf companies was sold forward with annual premiums often in excess of 100 per cent and on credit.

Speculative dealing occurred too on the official market and in real estate. Kuwait's normally canny trading community had little time for other activities and a suspension of reason in favour of a get-very-rich-quick frenzy sucked in people from office workers to the official establishment.

The commercial banks were de facto drawn into this vortex. From being on the whole spectators they became voluntarily or involuntarily active participants. The main six commercial banks in their customary business of extending credit to their customers were lending to institutions, corporates and individuals, knowing well that much, if not most, of this credit was going into the Manakh.

Between the third and fourth quarters of 1981 commercial banks' personal lending increased by 21 per cent and their lending to financial services by 15 per cent. Personal lending went up in the first quarter of 1982 by another 17 per cent. At the end of 1982 Kuwaiti domestic lending totalled KD 4.3bn.

In contrast to other states in the Organisation of Petroleum Exporting Countries (Opec) Kuwait has developed and kept a locally-owned commercial banking system. This policy fits well with the introverted and close nature of Kuwaiti society. Kuwait is very small, with some 600,000 nationals who benefit from the institutions, wealth and social handouts. Foreign labour and experts make up another 900,000.

Family groups

The Kuwaiti commercial banks form part of this small society composed of the family groupings which are the country's political and economic nucleus. The same families that are on the banks' boards run the trading establishments, provide senior government and administer the oil sector.

Members of many of these same families were also the big punters in the Manakh.

The commercial banks became a part of the Manakh debacle through their personal lending—credit lines, loans, overdrafts. Much of this lending was secured with real estate or stocks providing collateral. But the quality of much of this collateral is open to question. Collateral from domestic securities could have been holdings in the official stock market which, too, was subject to speculation.

The value of real estate was hard to evaluate over the year, again due to higher than average speculation, by Kuwaiti standards.

However, the realities of Kuwait are different and the commercial banks' position there secure. In no circumstances would the Government allow the banks to falter and in any case up to now Kuwaiti banks have been extremely profitable and expensive.

By the same token the Government will try to contain the number of individual bankruptcies from the Manakh and therefore the knock-on effect on the economy and the banks.

The banks were assured of very adequate liquidity in the second half of 1982 when the Government placed deposits of KD 300 to KD 400m with them. Interest rates which had gone high in the summer dropped by a good 5 percentage points.

From the Central Bank of Kuwait (CBK) figures showed the commercial banks' consolidated accounts reserves were KD 626m, of which balances with the CBK were KD 134m and CBK bills KD 470m. The total reserve figure was double that of year end 1981.

The six commercial banks vary from the largest, National Bank of Kuwait (NBK) to the small and majority-owned Burgan Bank. At end 1982 total assets were KD 9.2bn, up 20 per cent on 1981's KD 7.6bn. This growth rate, however, is considerably lower than the phenomenal growth rates of over 30 per cent in the previous two years.

NBK's balance sheet showed a 19 per cent increase in assets (less contras) to KD 2.3bn. A good performer last year, Bank of Kuwait and the Middle East (BKME) increased its balance sheet from KD 745m to KD 1bn.

Due to the belief that BKME, like NBK, was less exposed in the Manakh than some others its deposits rose by 39 per cent to KD 959m.

The fall out from the Manakh has by no means settled. Towards the end of last year banks and other institutions had considerable difficulty in preparing audited accounts.

The Government was then—as it still is—in the throes of finding a system for writing down or offsetting Manakh cheques. This led to uncertainty on how to present on balance sheet sums related to the forward share trading.

Kuwait commercial banks, ever conservative, have big hidden reserves, estimated locally at some KD 500m. For 1982 they had an additional thorny problem of estimating bad debt provisions and increasing reserves. Gulf Bank, for example, has included exceptional provision under "Demand, time deposits and other accounts including contingencies" and raised this figure from 1981's KD 1.4bn to KD 1.7bn on a total balance sheet of KD 2.1bn.

The degree of inner reserves, however, makes profit figures for Kuwait banks somewhat approximate. Banks have freedom to transfer profits in and out of these reserves. Published profits for commercial banks for 1982 were KD 69m from 1981's KD 51m.

Well-grounded

The commercial banks like other major Kuwait financial institutions such as the "3Ks" (Kuwait Investment Company, Kuwait Foreign Trading, Contracting and Investment Company and Kuwait International Investment Company) come out of the Manakh fiasco well-grounded and supported by the government.

Local stories suggest that one of the bigger banks was in fact responsible for the slowdown in credit growth to the Manakh in the first part of 1982. Having prepared a report on the out-of-hand Manakh speculators, with its board's approval it cut credit lines to customers who were also major players in the market.

At current slow rate of progress it will take more than 1983 for the Government and individuals to sort out and net their Manakh positions. During this time the banks, though highly liquid, will find a shortage of domestic economic activity.

The Manakh crisis came when Kuwait was suffering a downturn in trading with Iraq and some recession at home and in the Gulf.

NBK's recent Economic Quarterly states, "The main challenge facing the banks and other financial institutions will be to explore and find selective lending and investment outlets for their readily available funds.

FAR EAST: consumer finance is the latest force for change in Japan

Old disciplines face challenge

Japan

JUREK MARTIN

THE FAVOURITE advertising theme of Japanese banks is the family. The walls of each and every branch office are festooned with huge photographs showing the typical healthy young Japanese family happily engaged in assorted pastimes and sports. Images of sweetness, light and health thus suffuse each institution.

The trouble with the image is that it does not exactly correspond to what is actually happening inside the Japanese financial community. As, one by one, the restrictions that have hemmed in Japanese banking and financial services are removed, so members of the financial family are starting to play with each other's toys. Inevitably, in an atmosphere of greater competition, some of the conflicts are threatening to become quite sharp.

The seeds of sibling rivalry have long been present. The major city banks and the big securities houses, for example, have for years coveted each other's business fiefdoms. Similar inherent conflicts have divided the city and regional banks, specialising in short-term financing, and the long-term credit and trust institutions.

The recent explosion in consumer finance, for years underdeveloped in conservative Japan, has attracted both established institutions, non-financial corporations such as department stores and previously less reputable loan sharking operations. The growth of electronic banking is also sharpening competitive forces.

This does not of course mean there has been an overnight change in the financial environment. In banking and finance, as elsewhere, the Japanese Government tends to proceed with all deliberate speed. The major revisions in the Banking Act which took place last year and which blurred some of the distinctions between the city banks and the securities houses evolved slowly.

It was, after all, only in April that the banks were finally permitted to trade government bonds over the counter. Caution over the yen also resulted in delays before both the banks and the securities houses were authorised to sell domestically foreign commercial paper and certificates of deposit.

A similar wariness still pervades decision-making over the creation of an offshore banking facility in Tokyo, the introduction of which could genuinely change the face of Japanese banking and finance. The widespread assumption is that an offshore facility will be in place within two to three years. This is based on the knowledge that the Ministry of Finance supports the concept and that the MOF counts more than the Bank of Japan (BOJ), whose reservations, largely centred on what it feels are potentially adverse consequences for controlling monetary policy, are well known.

Japan: experiencing a surge in consumer finance

But precipitate action is unlikely. The Government appears to accept that it is logical that the country should espouse an international financial position commensurate with its economic weight—but not before careful study of the pitfalls.

With hindsight, this caution is understandable in the light of the somewhat severe shock to the Japanese psyche brought about by what might be described as an earlier "leap in the dark" — heavy Japanese bank leading to key developing countries. The problem here was not that the Japanese banks had been more imprudent than their Western counterparts or even that the debt crisis as such was unmanagable — though the BOJ has been forced to relax guidelines so that Japanese banks could participate in international rescheduling operations, while the MOF has permitted the banks to set aside up to 5 per cent of their overseas loan portfolios as (non-deductible) reserves against bad debts. It was more that the crisis had somehow not been foreseen.

A similar concern is already beginning to manifest itself over the startling growth in the activities of the "sarakin," the money lenders in the vanguard of the explosion in Japanese consumer finance. Given that personal finance facilities in Japan have traditionally been sparse, it is not surprising that the sarakin have found a niche in the market. It is undoubtedly regrettable that some of them resort to strong arm methods to collect on their debts but what is really disturbing is the extent to which the major city banks (as well as life insurance loaned them money — to the tune, according to the MOF, of Y184bn by September last year, a five-fold increase in 18 months.

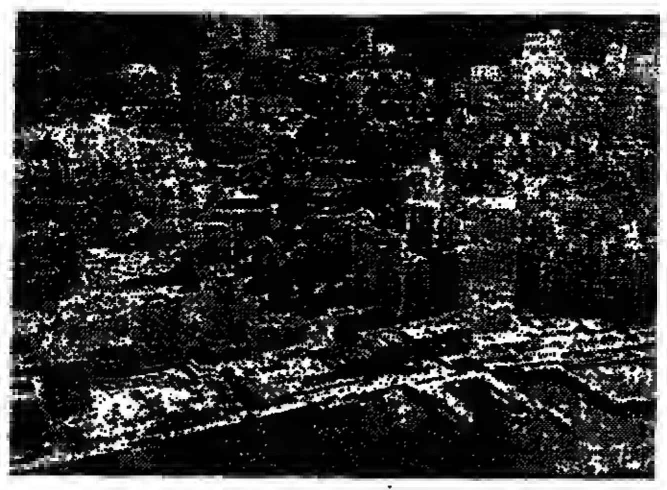
Implicit in rapid changes in consumer finance is absence of the sense of discipline that has characterised the Japanese financial system for so long. Alarmed politicians have sought remedies with a variety of Bills introduced into the Diet.

FAR EAST: gloomy year for Hong Kong bankers

Property loans hit profits

Hong Kong

ROBERT COTTRELL



Most Hong Kong banks have reported profits growth, though generally modest.

IT HAS been little short of a disastrous year for Hong Kong bankers. The downside of the 1978-81 property boom has created massive loan delinquencies—some publicised, many not. The domestic banking system itself moved towards the conclusion of a phased restructuring into three tiers, with the strains of a shifting funding base exposing dangerous weaknesses in the deposit-taking sector, where seven companies' registrations have been revoked in the past six months.

Most banks managed to report profits growth, though generally of very modest proportions compared with previous years. The privilege of limited disclosure enjoyed by Hong Kong banks makes it impossible, however, to discern how far that growth was massaged into existence by use of inner reserves. Some banks were obviously hard hit by their earlier forays into property lending. It is reckoned that Wardley, the merchant banking arm of the Hongkong and Shanghai Banking Corporation (HSBC), might have had to report a loss for 1982 if its mighty parent had not taken some doubtful debts on board.

HSBC itself showed overall group profits ahead by just over 11 per cent. A partial boost came from its British merchant banking subsidiary Antony Gibbs, which turned around from a 1981 loss to a 1982 profit.

The major casualties of the property boom so far have been Eda Investments, controlled by the Chung family, which is now in liquidation; and Carrian, the property, shipping and insurance group which has been struggling for six months to stave off liquidation by renegotiating US$1bn of bank debts.

Wardley apart, it is the foreign banks in Hong Kong which have suffered worst from the property slump. The ambitious loans made in Hong Kong by Bumiputra Malaysia Finance (BMF) had by March this year caused sizeable political headaches in Kuala Lumpur, headquarters of BMF's parent bank Bumiputra. British banks, too, have been burnt. Barclays Asia, regional merchant banking arm of the British clearer, is a lender to both Carrian and Eda and took the lead in petitioning for Eda's winding-up. Lloyds Bank International also appears to have suffered.

Bank of China, parent of a 13-strong "family" of Peking-owned banks in Hong Kong, was also caught out in the property-lending fray. Its affiliates are known to be leading lenders to Eda, and its management—in common with other banks—is reckoned to be taking a very tough line on new property lending this year.

But both Bank of China and HSBC have placed themselves in the forefront of the fight to boost confidence in Hong Kong, as worries about the colony's long-term political future multiply. Both have asserted their willingness to lend to local industry. HSBC led a move towards offering 20-year mortgages on New Territories property — significant because Britain's lease over that section of Hong Kong has just 15 years to run.

The troubles of the deposit-taking sector over the last six months have not only shaken local bankers but also focused attention on the efficiency of Hong Kong's system of prudential supervision of local credit institutions and the desirability of pushing ahead with restructuring the banking system at a time of corporate crisis.

The thrust of the two-year restructuring, to be completed in June this year, is to deny the bottom tier of registered deposit-taking companies (DTCs) access to short-term public deposits, pushing this money upmarket into the exclusive domain of licensed banks. A middle tier, licensed DTCs, comprises merchant banking institutions which can take short-term money but only in commercial-sized deposits of HK$ 500,000 or more.

The common thread running through delinquencies in the registered DTC sector appears to be that of manager's seeing short-term public deposits run down, while the quality of loan books has deteriorated in line with the property market, where several DTCs had become heavily committed. First rumblings of trouble at a DTC called dollar credit in November caused several banks to rein in lending to DTCs as a whole via the interbank market, precipitating knock-on delinquencies.

Again, HSBC helped shore up confidence by offering a lifeboat to troubled DTCs. There may be one or two more delinquencies to come but bankers hope the shock waves have by now largely receded.

Chastened, and in some cases poorer, banks are doing less lending and more rescheduling in the domestic market. The outlook is happier for international bankers serving regional capital markets out of Hong Kong. Mutual undercutting of margins has given way to a "get-tough" policy on syndicated credits to international borrowers. Bankers, sensing the shift in the wind early this year, were resigned to higher margins depressing loan demand. Whether or not such a reduction will occur is not yet clear. Loans are taking longer to arrange, the haggling is tougher, but the underlying cash thirst of Asia's developing nations still appears strong.

About 20 banks found to their cost that vigilance was still high

MAS shows its teeth

Singapore

KATHRYN DAVIES

SINGAPORE'S banking scene has been enlivened in recent months by a series of minor dramas, as a result of which the Republic's quasi-central bank, the Monetary Authority (MAS) has assumed a higher profile than at any time since its performance came under attack by the Government two years ago.

Frequent personnel changes at the MAS had caused some observers to conclude that the Authority was a rather toothless tiger, having been deprived of its responsibilities for the investment of Singapore's foreign reserves by the more recently created Government of Singapore Investment Corporation (GSIC).

Late last year, however, 20 banks, most of them foreign, found to their cost that MAS vigilance was still high. A long-standing source of official discontent, the practice of so-called "round tripping"—in which MAS reserve requirements of 26 per cent are effectively evaded by moving Singapore dollar deposits overseas and then re-depositing them as interbank deposits (which don't count for reserve purposes)—was stamped on heavily. The offending banks were summoned to the MAS to give a personal account of themselves, rebuked and fined—in one case reportedly as much as U.S.$1.5m.

Almost simultaneously, the MAS chairman and first Deputy Prime Minister, Dr Goh Keng Swee, announced that the authorities would move in to clean up the gold market, which was in danger of becoming a casino where a few fly-by-night gold traders were doing everything with customers' deposits except buying a futures' contract on a recognised exchange. The official futures exchange, GES, through which only a small percentage of trading had been conducted, has been reorganised and all futures traders will now have to belong to it. The new chairman is Ng Kok Song, manager of the MAS international department, and there is a MAS presence on all the various GES committees. In addition, all committee members will first have to be approved by the authority.

Blessing

This also has implications for the proposed financial futures exchange which is to be part of the GES once it is set up. At present a financial futures subcommittee within the GES is looking at what one committee member calls the "very complex" issues involved, including the nature of a relationship between the Singapore market and Chicago's IMM. The committee is being advised by Chicago Mercantile Exchange's executive vice-president Beverly Splane. The project has MAS blessing and the formation of a financial futures exchange is expected some time later this year.

The issue of personal probity in the banking community, particularly the allegation that some loan officers are corrupt, is clearly causing concern. Dr Goh referred to it earlier in the year when he spoke of well-educated, well-paid young Singaporeans who took bribes to the detriment of Singapore's pristine image as a global financial centre.

It has not been made clear officially how widespread such practices are but officers from two foreign banks have so far been charged in court, one with bribery and the other with embezzlement. It is clear that MAS is determined to stamp out such malpractices before they become widespread — much to the relief of the banking community as a whole.

Singapore's role as a financial centre had seemingly been enhanced by the decision of three merchant banks in recent months to establish fund-management units in Singapore. But one of them — Morgan Grenfell (Asia) — has now moved its unit trust fund to Jersey in view of what are termed "tax ambiguities" in Singapore.

Crucial issue

No definite ruling has yet been made on the crucial issue of whether gains from the sale of investments should be created as trading profits or as capital gains (capital gains on buying and selling shares are tax-free). The feeling of many bankers is that on this occasion the tax authorities will insist that they are trading profits and therefore taxable. Merchant bankers, apparently with MAS backing, argue that overseas investors will be thoroughly deterred from investing in Singapore-based unit trusts unless these are ruled as tax-exempt.

This year will see the emergence of Singapore's Post Office Savings Bank (POSB) as a fully-fledged commercial bank, able to offer a wide range of financial services. This could directly affect the profitability of the "Big Four" local banks and smaller banks, especially if POSB retains its tax advantage (interest earned on POSB savings up to a maximum of US$50,00 is not taxed). At the time of writing the Ministry of Finance had not announced its decision but banks with full licences would cry "foul" if POSB were able to maintain its existing network of 115 branches—when permission for other banks to open branches is sometimes only reluctantly given—and still offer tax-free service to customers. Most of the US$2.5bn in savings garnered by the POSB is lent out to the Government for development projects.

Meanwhile the Big Four—Oversea-Chinese Banking Corporation (OCBC), Development Bank of Singapore (DBS), Overseas Union Bank (OUB) and United Overseas Bank (UOB)—have reflected overall economic downturn with lower earnings. In particular DBSs profits have been affected by the necessity to make provision for bad debts caused by its lending to Poland and Mexico and defaulting property companies in Hong Kong. OCBC, on the other hand, has reaped the rewards of its traditionally conservative lending policy and has not had to make additional provision for bad debts as directed by the MAS. It too, however, like the others reported a decline in earnings in 1982.

Australasia: Canberra toughens foreign investment policy

Door shut on foreign banks

Australia

MICHAEL THOMPSON-NOEL

IN KEEPING with the "softly, softly" approach adopted so far by the new Labor Government in Canberra, the declaration by Mr Bob Hawke, the Australian Prime Minister, that the country would not after all be granting right of entry to foreign banks caused barely a ripple in Australia. Yet it can be viewed as part of a broader plan, on Labor's part to toughen foreign investment policy Down Under.

It can also be seen as a definite step backwards, for the entry of foreign banks was the key recommendation of the Campbell committee of inquiry into the Australian financial system, which published its report 18 months ago and said it saw foreign bank entry as an important milestone along the road towards a fairer, more dynamic, more efficient Australian financial system. However the cause is not completely lost.

At present, only two foreign banks—Banque Netionale de Paris and Bank of New Zealand—heve full Australian licences, although many more have close ties with the country, including merchant banking, finance and investment interests.

Citicorp Australia, for example, which at present is 100 per cent owned by Citicorp of the U.S., has about 40 retail money shops, employs 1,400 and has assets of more than A$2bn (£1.1bn). It also owns 49.9 per cent of Citinational, a merchant bank.

On the domestic banking scene there are now only five Australian trading banks: Westpac (formed from the merger in 1981 of Bank of New South Wales and Commercial Bank of Australia); National Commercial Banking Corporation of Australia (formed from a merger of the Commercial Banking Company of Sydney and the National Bank of Australasia); the Australia and New Zealand Banking Group; the small Australian Bank (which received its licence in February 1981) and the Government-owned Commonwealth Banking Corporation. There are also state-owned banks such as the State Bank of New South Wales (formerly the Rural Bank of New South Wales).

Together they comprise a small, cosy and hitherto highly profitable community into which the former Federal Treasurer, Mr John Howard, was keen to introduce about 10 foreign newcomers, with the hint that more would follow. Indeed the former Liberal-National Party coalition government had set a deadline of May 31 this year for the lodging of applications.

However, that was before the Australian general election of March 5, which saw the coalition partners swept from office and replaced by Labor, whose new Treasurer, Mr Paul Keating, had said before the election that the entry of foreign banks would lead to unnecessary deregulation of the local financial system and cost the country control over interest rate, monetary and exchange rate policy.

Moreover, said Mr Keating, this was probably not the time for Australia to link itself more directly to the "general instability of the international banking system."

There is a feeling among some Australian bankers, however, thet once Labor has settled into office it will look more favourably at foreign bank entry, even though the thrust of the Treasurer's handling, to date, of other foreign investment proposals (notably in food processing and property) lends little support to that view.

Inroads made

If they have to date been excluded from the trading bank scene foreign banks have nevertheless made inroads into less regulated parts of the system such as merchant banking and non-bank finance, where the level of foreign ownership was calculated recently at around 60 per cent. In addition, about 90 foreign banks have representative offices in Australia.

The reverse side of the foreign entry coin is that Australian banks, though not large by world standards, are playing a bigger and bigger role overseas, not only in the immediate neighbourhood (New Zealand, Papua New Guinea, Fiji and e number of the smaller Pacific Islands) but increasingly in Europe, the U.S., Hong Kong and Singapore.

Not that Australian banks are much exposed to risk. According to the latest study by the Reserve Bank of Australia, the largest aggregate claim by Australian banks on an individual country known to be experiencing debt repayment difficulties is on Mexico, where the exposure is about 0.4 per cent of the banks' total assets. Claims on Latin America as a whole, and on Eastern Europe, are equal to about 0.6 per cent and 0.3 per cent respectively of total assets.

In Australian dollar equivalents, says the Reserve Bank, the assets of overseas offices of Australian banks more than doubled between June 1980 and December 1982 to about A$17.3bn, which compares with a growth rate of about 50 per cent over the same period in their Australian assets.

Of the total, A$6.62bn (38 per cent) was accounted for by the UK, including the Channel Islands, with other percentages as follows: the U.S. (including the Cayman Islands) 23 per cent; New Zealand 16 per cent; Singapore 12 per cent and Hong Kong 7 per cent.

At the end of last December the Australian banks' Eurocurrency borrowings, mainly inter-bank, amounted to A$3bn, ebout double the amount outstanding in June 1980.

Despite expansion abroad the banks are keen to see much more rapid progress at home, particularly in terms of deregulation interest rates on bank lending.

The need, said Mr Bob White, Westpac'e chief generel manager, recently, was for a "competitively neutral, efficient financial system" in Australia, to ensure that the country's current severe recession was not unnecessarily prolonged. If progress towards that goal is slower under Labor than under the former government, it will be regretted in Australia. But these are still early days.

Restrictions imposed on major areas of activity such as interest rates for lending

Chafing under close restraints

New Zealand

DAI HAYWARD

NEW ZEALAND trading banks are once again in a straitjacket of restrictive controls, reminiscent of the problems that governed their operations in the Sixties.

Until the late Sixties New Zealand bankers claimed they had to operate under the most universal controls of any banking system in the Western world. These were gradually eased over a period of years until in 1976 trading banks burst free of them completely.

Then in November 1981 and again in June last year restrictions were placed on the major areas of bank activity. Interest rates for lending were frozen at the existing level, there were controls over deposit rates and there were ratio requirements requiring a large amount of funds to be kept in government stock.

The freedom for banks to set charges and interest rates was in some instances only being fully utilised when, in 1981, the process was reversed.

One prominent banker has described the controls of the last 18 months as a tragedy for the financial system as well as for the trading banks.

The government stock ratio has varied. Until May it was 31 per cent, having reached this figure with some substantial increases over the last six months.

Restrictions

For May the Government has reduced it from 31 per cent to 23.5 per cent. This represents a drop of one quarter in the funds trading banks must place with the Government.

The move is a large adjustment. There is an indication that the Government's own 15 per cent savings stock is attracting a lot of deposit money which would otherwise be lodged with the trading banks.

With the banks having to work under severe restrictions on interest rates, some deposit funds are now moving away from them into other fringe financial areas where depositors can get more attractive terms.

The tight control over bank lending means that this can only be increased by 1 per cent per month.

Most bank interest rates now range from 10 per cent to 17 per cent depending on the type of borrower. The low rates apply to charitable and similar organisations. The majority of bank rates would be below 15 per cent.

One fringe sector to benefit from this is solicitors. They are attracting many small depositors with NZ$10 to NZ$20,000 to invest in house mortgages.

Solicitors are offering 18 to 19 per cent on a first mortgage and 20 to 21 per cent on a second mortgage. Although no official figures are available, bankers and financial observers say there has been an upsurge in lending by solicitors with a corresponding increase in the amount of funds being placed on deposit with them.

The banking fraternity felt annoyed this year when the Government itself came out with a new government investment scheme offering 15 per cent on call. This was greater than trading banks or most other financial institutions can match.

Bankers claim that high interest rates available outside of the controlled area is distorting the New Zealand financial system while at the same time denying trading banks and bankers the ability to compete on even terms.

There has been criticism that the Government's own institutions such as the Rural Bank and the Development Finance Corporation, which are not subject to restrictions, are expanding their activities to meet the demand which trading banks cannot satisfy because of the limitations on their operations.

The Rural Bank was set up by the Government some years ago to assist farming or farm or agricultural based projects. This includes industrial ventures which are linked to farm processing and export.

Over the last four years lending by the Rural Bank has increased from NZ$172m to more than NZ$400m. Another worrying development for the trading banks is the Government's announcement that it intends to license other dealers in foreign exchange.

Trading banks had a monopoly on this but over the past few years merchant banks, which have been negotiating some of the large overseas loans required by New Zealand's developing industries, have done much of the work involved arranging foreign exchange.

Merchant banks or other institutions could do all the dealing except for the final settlement which had to go through trading banks. There are suggestions that in some deals even the final settlement was being done without the involvement of a trading bank—which is the only group licensed to do this.

The trading banks thought they had won a victory when the Government indicated it would tighten up on foreign exchange dealings so only those licensed to do so could operate in this area. Then the Government announced it would issue a license to anyone who applied and was qualified. The Reserve Bank can anticipate a rush of applicants from those anxious to break the trading bank monopoly.

Dealing in foreign exchange is no longer as profitable as it once was however.

Some eyebrows were raised in New Zealand banking circles when in late April the Bank of New Zealand revealed it had lost NZ$7.8m ($5.2m) through unauthorised foreign exchange transactions by one of its officers in Singapore last year. The officer concerned had acted beyond his authority.

The Bank of New Zealand said that the loss caused real concern but it had been accommodated within its foreign exchange dealings and should be related to the bank's net trading income of NZ$2.51m. It had a trading profit of NZ$70m and a tax paid profit of NZ$35.4m.

It has been suggested that the NZ$7.8m could be the largest loss in New Zealand banking history.

A significant event in the New Zealand banking scene during the past years has been the reduction from five trading banks to four with the merger of the former New South Wales and CBA banks into the new Westpac.

Reduction

Although the merger was essentially an Australian decision it had ramifications for New Zealand where both banks were keen operators. The need for an expanded capital base to allow increased international operations had benefited the bank's activities in New Zealand as well as in Australia.

All four trading banks are introducing "automatic teller" systems. Three, ANZ, BNZ and the National already have these working on a trial basis.

The New Zealand Post Office Savings Bank has also linked up with two merchant banks and a building society to introduce "the any time" automatic banking system. Some of the trustee savings banks are also operating automatic machines.

The Post Office Savings Bank leapt in with a blaze of television advertising promoting its "any time" banking facilities. Unfortunately, after a glamorous opening by Prime Minister Mr Robert Muldoon, the NZ$ 3m system ran into computer problems and was still not working a week later.

With the Government determined to maintain its efforts at reducing inflation—which has produced some success over the past few months largely because of the wage, interest and rent freeze—it is unlikely New Zealand trading banks can expect much relief, if any, from the controls imposed over the last 18 months. Bankers will inevitably have to continue to operate within the controls imposed on them.

ASIA: Malaysian bank rankings could change greatly by 1990

Restructuring continues

Malaysia

WONG SULONG

KEEN competition is building up among Malaysian banks as they realign themselves under influential corporate and political groups. At the same time, however, they are likely to move more cautiously in overseas expansion following the difficulties Bank Bumiputra, the country's largest, ran into over massive loans made to Hong Kong's financially troubled property groups.

"If the world recovery materialises this year Malaysia will be seeing great times in 1983-86," predicts a prominent banker. "The tin mines and plantations are now Malaysianised, which means money will stay within the country. Banks will be fighting to get a slice of the fortune."

Indeed banks in Malaysia have done very well for themselves, thanks to the expanding economy.

According to Bank Negara, the central bank: "Since the early 1970s the commercial banks have been enjoying one of the fastest growth rates in the economy, recording uninterrupted double digit rates of growth since 1971 and accelerating to an average annual rate of 26.5 per cent in the last four years."

The 1960s were characterised by the dominance of the foreign banks and the emergence of local incorporated banks. The 1970s saw the expansion of the local banks, with Bank Bumiputra and Malayan Banking overtaking the Hongkong and Shanghai Bank (HSBC) and the Chartered Bank as the top two banks in tha country.

The current decade is witnessing the restructuring of banks, both foreign and local, so that the present rankings of the banks could be greatly changed by 1990.

There are 38 commercial banks and 12 merchant banks in Malaysia, of which 16 of the commercial banks are foreign-incorporated.

Growth of foreign banks has been stunted by official discrimination, in that they are not allowed to open new branches and are not favoured by government deposits.

A couple of small foreign banks were restructured during the 1970s but the major restructuring exercise is just only beginning.

Like other businesses, banks have to comply with the Government's new economic policy which states that as soon as possible they should adopt the formula of 30 per cent for the Malays, 40 per cent for the non-Malay Malaysians and 30 per cent for foreigners, in respect of ownership and management.

HSBC has submitted its equity-restructuring proposals to Bank Negara for approval, while Chartered Bank is expected to do so shortly.

Once these two foreign banks are locally incorporated and therefore unfettered by past restrictions, they are expected to move aggressively to regain lost ground and lost time.

No doubt both tha HSBC and Chartered will be aligning themselves with influential political and corporate groups, since getting along with the right contacts is becoming increasingly essential in Malaysian business.

The newly incorporated Malaysian French Bank, successor to the Malaysian operations of Bank Indosuez, has as its leading partner Daim Zainuddin, a property developer and close associate of Dr Mahathir, the Prime Minister.

The small Kwong Lee Bank now comes under the influential Malayan United Industries (MUI) group of Datuk Khoo Kay Peng. Renamed the Malayan United Bank, it has set itself the target of becoming one of the top five banks by 1990.

As a *quid pro quo*, MUI has sold its 23 per cent stake in Southern Banking to Killinghall Tin, the listed flagship of the Crown Prince of Selangor State. Killingball is bidding for the rest of Southern Banking.

Datuk Azman Hashim, a prominent banker and well connected with the present political leadership, has bought over the Arab Malaysian Development Bank, the largest merchant bank, and intends to build it into a financial conglomerate.

Bank Bumiputra, Malayan Banking, United Malayan Banking Corporation (UMBC) and the Bank of Commerce—four banks controlled by the Government—have had top management changes ordered by Dr Mahathir.

Many local banks have increased their paid-up capital many times in recent years, while others have brought in foreign partners to reinforce their operations.

Bank Negara is encouraging the development of bealthy competition by liberalising many banking operations, including the freeing of interest rates, but central bank control of the banking system remains very tight.

Appointment of bank directors needs the approval of the central bank; banks cannot lend money to directors, staff or their close relatives; senior bankers have to declare their assets each year.

"Prudent banking" is the watchword of Bank Negara. In early 1981, when the property boom was still booming, it made a critical decision by stopping local banks from funding Malaysian companies buying foreign properties. Local funds should be used for productive purposes within the country, warned the central bank.

But what was not realised then was that Bank Bumiputra *had already committed itself* to massive loans to Hong Kong property groups through its Hong Kong-based subsidiary Bumiputra Malaysia Finance (BMF). The latter is an autonomous entity outside the central bank's purview.

BMF has given out more than U.S.$300m—more than the entire shareholders funds of the parent bank—to just three groups—Carrian, Eda (which is under liquidiation) and Kevin Hsu.

What has been revealed is just only the tip of the iceberg and the issue threatens to explode into bitter political controversy and recriminations in Malaysia.

It is a delicate situation. Bank Bumiputra was set up specifically to help the economically backward but politically dominant Malays to compete with the affluent Chinese community.

Many Malays will find it intolerable that Bank Bumiputra has got itself into such deep trouble in Hong Kong. But to highlight its woes may lead to a run on the bank and years of careful government nursing of this institution would be set to naught—not to mention the erosion of public confidence in tha Malaysian banking system.

The Government has said it will back the bank to the hilt. The situation is so far under control, as evidenced by the competitive yields and marketability of bankers acceptances (BAs) issued by the bank.

TOP SIX MALAYSIAN BANKS

Ringgits m—December 31 1981

	Assets	Deposits	Shareholders' Funds	Net profits
1. Bank Bumiputra	19,576	13,326	603	45.7
2. Malayan Banking	14,339	8,363	637	74.2
2. HSBC	4,525	2,437	n/a	39.9
4. UMBC	4,474	2,772	107	12.6
5. Chartered Bank	4,303	2,269	n/a	26.8
6. Public Bank	2,685	2,133	140	18.4

Note: For UMBC the figures are for tha year ended June 30 1981. Figures for HSBC and Chartered Bank refer only to their Malaysian operations.

The country's foreign exchange bank has particularly blossomed in the last year

More activity in Hong Kong

China

COLINA McDOUGAL

AS CHINA liberalises its economy, the men who manage its banks grow noticeably more like their counterparts around the world. Bright, discreet and cautious, they run a banking system which is also beginning to bear more than a passing resemblance to those of other countries. The Bank of China, the country's foreign exchange bank, has particularly blossomed in the last year or so with a host of activities which are conventional in other countries but quite new to Peking.

This stems mainly from the need to handle China's new surplus of foreign exchange efficiently. By last December foreign exchange reserves had risen to $11.3bn compared to only $4.5bn the previous year. The Chinese foreign debt to set against this is thought to be only about $4bn. This healthy balance, the result of burgeoning exports and clamps on imports, has allowed the Bank of China to lend abroad, to widen its activities at home and to support China's export trade with export credit.

China's reserves are lent out in increasing volumes through the London inter-bank market. Chinese bank activity has also risen greatly in Hong Kong, where it could be seen as an effort, at least partly to stabilise the political uncertainty and the collapse of the property market last year.

In February this year the Bank of China began making loans with a 50-year maturity to Hong Kong manufacturers at about ½ per cent below prime rate. This move was clearly designed to inspire confidence in the colony after 1997. At the same time the Bank began lending to small manufacturers who found it difficult to get loans from other banks.

In China the Bank has begun to compete with foreign banks for the foreign exchange element of domestic schemes. Last year the Bank of China took over a loan of $352m for a big hotel project in Nanjing from the Hongkong and Shanghai Banking Corporation and its 1983 work programme envisages loans for the big energy projects which will be tha backbone of China's sixth five-year plan.

These are likely to include the Pingshuo coal development, a partnership with a subsidiary the American oil company Occidental, the proposed nuclear power station in Guangondg province, probably with the help of French and British companies, and the south-west China coal scheme which is still very preliminary. Transport and barbour construction may also be covered.

Smaller projects

The Bank is also lending increasingly for smaller projects. The Daqing petrochemical works, for instance, was able to borrow to buy 12 automatic wax pressing and filtering machines from abroad. This type of lending is expected to expand, especialy in the ports of Guangzhou (Canton), Shanghai and Tianjin where there are important export industries.

The ports will also be the focus of the new export credit scheme. The Bank of China now plans to offer low interest loans totalling $500m to encourage exports of machinery and ships. A pilot scheme may be tried out in China's three ports — Shanghai, Tianjin and Dalian in north-east China.

With its comfortable surplus of foreign exchange China has not been seriously in the market for commercial bank loans. It is still seeking low interest ald loans, however, and by the end of April was close to signing a $2bn loan from Japan. Terms have not been disclosed but are probably similar to the two-year Y300bn loan provided in 1981, which among other things covered the first stage of the Baoshan steel works near Shanghai. The new loan would be for transport and communications under China's sixth five-year plan.

China has recently received around $250m from the World Bank, over $100m to help develop oil resources, $75m for agriculture and $70m for industry. It has also formally applied to join the Asian Development Bank, though this will be fraught with political difficulty as it may mean displacing founder-member Taiwan.

World Bank funds are distributed through the China Investment Bank, an institution set up in 1981 to gather and distribute foreign loans. Its activities are symptomatic of the many changes taking place in the domestic banking system.

Two-year plan

The most far-reaching of these is the proposed foundation of a central bank separate from the present People's Bank of China, which currently fulfils both a central banking and a commercial role. Planning for the new bank may take up to two years. Its role and powers will be of particular interest to foreign businessmen since it is reported to ba likely to supervise the Bank of China.

China's two other banks, the Agricultural Bank and the Construction Bank, are also changing. The Agricultural Bank, which runs a buge network of rural credit co-operatives, is having to adjust its policies to suit the abandonment of the people's communes. Individuals and bouseholds, rather than production teams and brigades, now have to be able to get loans to buy equipment.

The Construction Bank, which was originally instituted to provide loans to industry, has this year become a watchdog. China's capital construction is already exceeding its plan and the Bank has been warned to close some loan accounts and discourage all further investment.

Both the Construction Bank and the People's Bank now bave officials who monitor the progress of investment plans, while the Investment Bank requires feasibility studies before money is handed over. If these officials can do their job effectively they will close one of the biggest drains on the Chinese economy, since billions of dollars of investment have been frittered away in the past on impractical schemes. Bnt whether the banking system is powerful enough to do what even the Party's Central Committee bas often failed to achieve must remain open to doubt.

To safeguard the final tranche of its IMF loan India has to take particular care to meet performance criteria

Poor outlook for lending and profits under IMF restraints

India

K. K. SHARMA

WITH THE slowdown in the Indian economy in 1982, due to adverse weather conditions and setbacks in the international situation, banks in the country faced the prospect of lower profits. This was exacerbated by the Government's decision to ask them to provide low-interest loans for its politically-motivated 20-point economic programme and restrictions by the Reserve Bank of India on credit for industry.

Results of the banks' operations in 1982 will be known in the next few weeks when they finalise their balance sheets, but bankers concede that operating profits will be down at a time when prospects for 1982 arenone too bright.

In 1982, they recorded a lower rate of growth in deposits and credit expansion, particularly to industry and trade.

Aggregate deposits of scheduled commercial banks increased in 1982 by only 13.9 per cent to Rs 506bn compared to the net rise of an impressive 13.9 per cent to Rs 445bn in 1981.

Similarly, total bank credit expanded by just 10.1 per cent to Rs 332bn in 1982 compared to the net expansion of 22.2 per cent to Rs 301bn in 1981.

The Government is keeping careful watch over bank credit because of the performance criteria laid down by the International Monetary Fund for the record $5.7bn three-year loan taken by India in 1981. Crossing the ceilings on bank credit could jeopardise the final year's instalment of the loan, and this is one reason for the slowdown in the banks' operations.

The growth rates, because of the close monitoring of banking operations by the Government and the Reserve Bank, have been in accordance with the projections made for the year. But the outcome of the slow deposit and credit expansion is the abnormal increase in liquidity, particularly in the latter part of 1982.

Aggravated

Credit restrictions by the Reserve Bank were already in force when the year began. As it became clear that industrial investment and production was suffering because of the tight curbs, there was some relaxation, but this proved insufficient to stimulate activity as semi-recessionary conditions had already set in and these were aggravated by cuts in governmental expenditure and the poor monsoon (upon which the performance of the Indian economy depends).

The Reserve Bank, in consultation with the Ministry of Finance, has now lowered the lending rates with effect from April 1, although there is no commensurate fall in the deposit rates of the commercial banks. The Finance Minister also announced in his budget, presented to Parliament on February 28, that the tax on banks' incomes, owing to interest earnings, will be reduced by 50 per cent.

But the impact on banks' profitability is not expected to be anything but marginal, partly because the income tax on companies was raised at the same time by the Finance Minister. This happened at a time when they are being saddled with the financing of the Government's political-economic programmes from which returns are poor.

The Government has stipulated that the 22 nationalised banks—largest in the country which effectively account for more than 80 per cent of the entire banking operations—will give preference to the so-called "priority sectors" (farmers, small shopkeepers, artisans, etc.) under such schemes as the differential rate of interest or various rural development plans.

The returns from these are not only low but could actually lead to losses since the proportion of bad debts which have to be written-off is unusually high.

This would normally have been made up by lucrative advances to industry and trade, but this has been made difficult by the restrictions on credit to the traditional sectors at a time when they are facing semi-recessionary conditions.

Faced with the prospects of low returns from normal banking operations and losses on account of the increase in services to under-banked rural areas, a debate has started on improving the efficiency of banks.

Deteriorating

Since the industry is virtually owned by the Government, the bureaucratised service in Indian banks is notoriously poor and is deteriorating.

Apart from heavy wage bills and high establishment costs, as well as the losses on account of opening branches in low-profit areas, the banks could face a crisis because of other avenues of investment for the public.

The Indian capital market is at last showing signs of functioning and companies are tapping investible funds that would otherwise have gone into banks as deposits. Companies are now permitted to accept deposits at interest rates that are nearly six to seven per cent higher than what the banks can pay.

Some banks are seeking a cut in deposit rates, but this would only lower the rate at which they attract resources at a time when competing channels are opening up.

The otherwise bleak picture of banking in India has been relieved by the new openings to foreign banks and foreign operations of Indian banks because of the increased recourse by the government to commercial borrowings abroad. These are now being negotiated at an average of $1bn a year.

Since India's credit rating is good because of its low borrowings in the past and its unblemished record on repayments, there is a growing queue of foreign banks wishing to open branches in India.

A few branches have already been licensed—in addition to those which have already been operating for decades—but the government is taking a cautious line on this.

Partly, this is due to the growing experience and confidence of Indian banks in foreign financial operations and, partly, it is due to the insistence on the principle of reciprocity. This means that licences will be given to foreign banks to open offices in India, provided that Indian banks are allowed to operate in countries of their origin.

Trail-blazer in Islamic banking

Pakistan

MOHAMED AFTAB

"O believers, fear Allah and give up that interest which is still due to you, if you are true believers: but if you do not do so, then you are warned of the declaration of war against you by Allah and his messenger." (Verses 278 and 279 Surahal-Baqarah, Holy Koran.)

THIS IS what the Koran ordains about bank interest. Despite this, most Muslim countries still practise a Western-style interest-based banking system. But some of them have now begun to pay closer attention to Allah's call—in the wake of what is known in the West as Islamic resurgence.

Among them Pakistan has done some trail-blazing work in introducing Islamic banking. It has generated a good deal of interest among several other Muslim nations, where scholarly literature had always been available on the subject. The bankers there have now started limited banking operations.

Expressive

Islamic banking, which is known in Pakistan by its more expressive name of "Profit and Loss Sharing (PLS) savings accounts," yields profits ranging around 1.25 per cent a year higher than the bank interest available from the traditional interest-based savings accounts. Similarly, as against a 9.5 per cent interest on term deposits of a six-month duration, the yield from the PLS term deposits for this period goes up to 11 per cent. In 1981 it was up to 12 per cent.

PLS aptly describes the name of the game. A depositor receives a percentage profit at the end of each half-yearly cycle. The rate of profit is unknown when you put the money into the bank, theoretically it can range anywhere from zero upwards. Theoretically, too, if the bank invested your deposit in an operation which lost money instead of turning a profit, you may loose a part or even your principal.

What chiefly distinguishes PLS from the old interest-yielding accounts is, among other things, the undertermined nature of the yield, as in ordinary trading where you make a profit or incur a loss. It is generally not known, however, at the start of a deal what the rate of profit will be. Islam prohibits a "pre-determined" rate of return on financial transactions by the banks because, it says, that is interest.

Islamic banking offers two choices: a savings account with or without chequing facility or a term deposit which is for a fixed period ranging from six months to five years (term periods are six months, one, two, three, four or five years).

Starting from zero on the day Islamic banking was born at the beginning of 1981, the deposits rolled to Rs2.6bn in six months and to Rs6.489bn by December 31, 1981. Deposits pushed past the Rs 9bn mark in June 1982 and by late April 1983 stood at Rs 14.18bn over Pakistan as a whole, reports Mr M. R. Khan, chairman of the Pakistan Banking Council, who oversees 7,200 branches of five nationalised Pakistani banks.

The PLS deposits are 16.6 per cent of country's total deposits (including all interest-based savings, current, term and all PLs accounts) of Rs 85.42bn as of late April 1983. Mr Khan says: "PLS deposits grew at the rate of Rs 125m a week in 1982 and Rs 178m a week in 1983." The interest-bearing deposits are growing at a rate of 10.9 per cent a year, compared to a 100 per cent growth of PLS in 1983.

Mr Khan says that when Islamic banking was started in 1981 most of the PLS accounts were opened by converting the interest-based savings into new accounts. "During 1982 and 1983 there has been a further increase as the bulk of the PLS accounts are either new savings or the interest-based term deposits which are being transferred into PLS term deposits."

Now, when non-interest bearing (PLS) accounts are available even these people are bringing in deposits and helping to boost the savings. In that way, he feels the PLS system is helping in mobilising more savings, although it may, as yet, be hard to quantify it. If the trend lasts, it will help the economy, because Pakistanis only save an estimated 5 per cent of the GDP, instead of the 20 per cent which economists feel is required for growth.

This buoyant outlook is based on the fact that PLS accounts have offered between 8 and 8.5 per cent profit during 1982, while it was up to 9 per cent in 1981. The 1982 profit was generally half a per cent lower than in 1981. Even now the yield is better than the 7.5 per cent the bank offers on the common (interest-based) deposits.

But the lower rate of profit in 1982 on PLS compared to the previous year has set the bankers thinking. They must offer attractive profit rates to keep the new banking growing. One explanation for the yield reduction is that the portfolio in which the money from PLS deposits can be invested is reaching a saturation level. It is not as profitable as it was in 1981.

The most important reason for reduced profits, however, is the fact that the Government is charging a higher "management fee" on PLS operations. It varied between 5 and 10 per cent in 1981, depending on the performance of each bank. It was then kept low in order to make PLS accounts attractive. But by 1982, when the system had gained ground, the fee was raised to 10 per cent, leaving a smaller overall amount for distribution as profit to depositors.

Instruments

While Islamic Banking stays as the centre-piece of Pakistan's Islamisation of the economy, significant moves have been made in several other directions. Some of the new instruments and institutions in use are:

- Musharika: A form of bank participation in the equity of a company or business for proportional sharing of the profit.
- Modarba: A business in which a subscriber participates with money and the manager with his enterprise. The profits are shared on the basis of agreed terms.
- Participation term certificate A new corporate instrument for financing long- and medium-term local currency financing not exceeding 10 years. Profit and loss are shared by the certificate holder and the borrower.
- Investment Corporation of Pakistan This state-owned company has converted all of its 12 interest-based mutual funds on to a profit and loss basis since 1981.
- National Investment Unit Trust This Government company switched from interest-based operations to an interest-free dividend distribution from July 1970.
- Small Business Finance Corporation Owned by the state-owned National Bank, it introduced in July 1980 a new profit and loss sharing loan plan for cottage industries, small-scale industrial units, workshops, small businesses and artisans.
- House Building Finance Corporation This state-owned home loan company started advancing loans on profit-sharing basis in December 1978. On its loans it receives a share worked out on the basis of the rental value of the property built.
- Bankers Equity: Owned by the state bank (central bank) and commercial banks, the company provides industrial finance to private enterprise. Its operation is based on investment financing linked to profit and loss sharing.

LATIN AMERICA : few changes in Mexican banking system

Treading with extreme caution

Mexico

WILLIAM CHISLETT

THE NAIL-BITING over Mexico's newly nationalised banking system has ended. When the country's 58 private and mixed capital banks with assets of 3,292bn pesos, deposits of 2,238bn pesos and 123,000 employees were taken over last September by the outgoing Government of Sr Jose Lopez Portillo dire predictions were made about the Mexican financial system.

Many people feared that the banks would be controlled by the notoriously corrupt political class and that in a matter of months they would be decapitalised and bankrupt. The banks' shares in over 300 companies, including joint ventures with foreign companies like John Deere and Kimberly Clark, were also taken over.

Some eight months later, the banking system has hardly changed. There has been no run on peso deposits. Dollar accounts totalling $12bn were abolished and converted into pesos last September. Politicians have not moved into the bankers' desks. The only changes have been at the very top where the former chairmen have been replaced by state bankers.

Public image

Even the same advertisements as before nationalisation are being run on television in order not to arouse fears of change.

The five month old Government of President Miguel de la Madrid is treading with the greatest caution over the banks. It is anxious to preserve what had become a fairly efficient banking system and avoid a collapse.

Sr de la Madrid, who was hand-picked by Sr Lopez Portillo, (the Institutional Revolutionary Party has ruled Mexico for 54 years but presidents only serve one six-year term of office) was only informed of the nationalisation the night before the banks were taken over.

According to most accounts, Sr de la Madrid did not believe that the move was necessary, since the banks were already tightly controlled through high legal reserve requirements with the central bank.

But Sr de la Madrid has publicly said nothing which could be misconstrued as criticism. It would be politically very contentious for the Government to hand the banks back to the private sector.

The ruling PRI has claimed the nationalisation as another hard-won "conquest" for the people.

However the Government has stated that it will return up to 34 per cent of the bank shares to the private sector with a limitation that no individual or corporate body can hold more than one per cent of the capital.

The reason for the nationalisation had more to do with the personality of Sr Lopez Portillo than with Mexico's debt crisis. The commonly held view is that Sr Lopez Portillo took over the banks and lashed out at bankers for encouraging outflows of dollars in order to find a scapegoat and get his name in the Mexican history books at a time when he was being publicly ridiculed for mishandling the economy.

The Government is pursuing a conservative banking policy, which is modelled to some extent on the French nationalised banking system. It wants to keep the banks efficient, productive and profitable and let the traditional state banks like Banfioza continue to finance industrial development at low costs.

Profits declined massively in real terms last year. Bancomer and Banamex, the two largest banks which control over half the market, made net profits respectively of 4.43bn pesos ($62m) and 4.12bn pesos ($57.8m), when inflation was almost 100 per cent, after net income for both banks in 1981 of 4.13bn pesos.

Part of the poor performance was due to the large increases in the reserves for loan write-offs which had to be made because of the crippled state of heavily indebted companies. Firms have been squeezed by the devaluation of the peso which fell over 75 per cent against the U.S. dollar in 1982.

The outlook for this year as a whole is for higher profits in nominal terms, although bank business is currently depressed. Companies are awash with pesos because they have not been servicing their loans for some months and their dollar accounts were turned into pesos.

They have been amassing pesos to lock themselves into the recently announced government debt rescheduling schemes for the private sector where dollars can be bought for future delivery at favourable rates.

Peso liquidity is now being sucked up and the demand for loans, the bedrock of profits, will become intense again.

The Government has reversed the last administration's populist policy of limiting to 5 per cent the margin which banks can charge over the central bank's average cost of funds (CPP). It has also increased the interest rates on deposits, which were negative in real terms in 1982.

Interest rate

The CPP, the benchmark for loans to which banks add their margins, was 57.21 per cent in April, compared to 46.42 per cent in April 1982. The banks' margin is 9-12 per cent and another 20 per cent is charged in the form of compensating balances — making an effective interest rate on loans of 86-89 per cent.

The Government, under Sr Carlos Salas, the very experienced and able deputy Finance Minister for the banking system (a newly created title), wants to merge the 53 banks into eight—12 groups with no group holding less than 7 per cent of the market.

Specialisation has been ruled out, the banks will remain "multiple" banks, providing a full range of services along the German universal bank pattern.

Mexico's banking presence abroad will also remain largely unchanged, although there is currently little justification for maintaining the same strength since interbank deposit business has dried up and the banks are not in a position to participate in syndicated loans. Activity on the trade front is also low.

The authorities feel, however, that Mexico should not take a short-term view, after a hard-fought offensive three years ago to set up branches abroad, when they expect the country to recover in several years time.

Bancomer, Banamex, Serfin and Comermex, the top four banks, are thus likely to keep their separate identities and branch offices in London, New York and Los Angeles.

However there will be a streamlining of the offices abroad of the longtime state-run banks like Banorbras and Nafinsa. Their presence abroad was considered an unwarranted luxury evan when the Mexican economy was booming.

Just as there has been no dramatic run on peso deposits, so the authorities have also managed to contain what could have developed into a serious haemorrhaging of its interbank deposits.

The withdrawal of these deposits compounded the country's foreign exchange liquidity squeeze.

The top banks sweated profusely last August and September when foreign banks, which had placed short-term deposits with them, began to call them in. By December the outflow had been stemmed.

Mexico's international creditor banks have reluctantly committed themselves to maintain the level of interbank deposits at $5bn. The level last month was estimated at about $5.4bn, down from about $6.7bn before nationalisation.

Meanwhile the authorities are still wrestling with the intricate problem of how to compensate the former bank owners. Once the banks' net worth is evaluated, probably in June, the Government will issue bonds with a maximum life of ten years and a two—three year grace period. Interest will be backdated to September 1, 1982.

The Government may allow bond holders to use their bonds to buy back a 1 per cent stake in the banks and also purchase the banks' shares in companies.

The banks' shares in companies are being evaluated on the basis of 50 per cent of the book value on August 31 1982, and 50 per cent of their average daily value on the Mexican Stock Exchange in the 12 months before the nationalisation.

MEXICO'S TOP FOUR BANKS
(Peso; bn)

	1979		1980		1981		1982	
	Assets	Net profit	Assets	Net profit	Assets	Net profit	Assets	Net profit
Bancomer	225.2	2.4	338.5	3.0	488.5	4.1	770.5	4.4
Banamex	207.5	2.2	303.8	3.0	449.7	4.1	746.9	4.1
Banca Serfin	86.3	0.5	105.8	0.5	193.1	1.5	334.3	3.0
Multibanco Comermex	72.2	0.5	119.0	0.5	153.2	0.8	295.7	0.05

The fall in oil prices has had a disastrous effect on Venezuela

Money supply dries up as economy slides into semi-paralysis

Venezuela

JOSEPH MANN

A FEW months ago Venezuelan bankers were complaining that profits were down in 198. That liquidity was too tight and that the Government of President Luis Herrera Campins was making a poor hand of halting capital flight and pulling the country out of a four-year-old recession.

Today, however, the Venezuelan banking community is looking back on this period with longing. The national economy is in a state of semi-paralysis and international trade has slowed to a snail's pace. Businessmen and bankers expect a major shakeout this year, with serious consequences for the private financial sector.

Venezuela's currency—the bolivar—has suffered a large de facto devaluation and foreign exchange is in short supply. The country's Gross Domestic Product (GDP) will contract this year and business analysts are split on whether a significant recovery will occur in 1984.

In short, the economic weather forecast for Venezuela's banking sector has degenerated from "fair" to "foul."

Venezuela's current economic crisis began taking shape in mid-February last. Faced with a sharp drop in revenues from oil exports, rapidly declining international reserves (down $11.2bn in 1982) and problems in repaying its foreign debt, the Herrera administration ordered exchange controls, a three-tier exchange rate system for the bolivar, strict controls on the prices of all goods and services, widespread bans on imports and a variety of other measures.

This oil-exporting South American nation had not experienced exchange controls since the early 1960s and until earlier this year, the bolivar—formerly pegged to the U.S. dollar at 4.3 bolivars—was one of the world's most stable currencies. Dollars on the free market traded last week at a high of 10.1 bolivars, which means the Venezuelan currency value has dropped 135 per cent in value since capital controls were instituted.

Thus far, these official measures have done nothing to create any confidence in the Government or the national economy but they have had a strong adverse impact on the private banking system and its industrial and commercial borrowers. Money supply (M2), deliberately kept under strict control by the Government as an anti-inflationary measure, shrank in real terms last year. In 1983 so far money supply has been off slightly from the year-end 1982 figure of 129.1bn bolivars.

Money supply

Loan portfolios and deposits at commercial banks are also down (by 1 per cent or less) from last year's closing figures and loan-deposit ratios in recent weeks have been 82 per cent, up from a moderately tight 76.5 per cent a year ago.

Domestic money supply has been affected by other factors, too, such as a shortage of funds in the hand of the Government, usually a major depositor and supplier of domestic credit. Even worse, the banking system was shaken last November by the Government's takeover of the Banco de los Trabajadores (BTV), the country's largest bank, with assets reporting at $5.9bn. The near-failure of BTV sent shock waves through the financial system and the Government's decision to make good on deposits severely taxed the Treasury's finances.

BTV, jointly-owned by the Government and the Confederation of Venezuelan Labour (CTV), was intervened after gross mismanagement and widespread corruption drove the institution into a liquidity crisis. Besides shaking confidence in the banking system as a whole, BTV's near failure also produced a situation which exacerbated liquidity problems. The bank continues to absorb money from the pool of available domestic funds (both Government and private sector) in order to pay back hundreds of thousands of worried depositors.

Government officials have said privately that BTV, whose commercially available loans represent only about 8 per cent of its total loan portfolio and about 6 per cent of total assets, will be slowly liquidated.

Despite Government exchange controls Venezuelans continue to move money offshore, thus putting even more pressure on domestic liquidity.

Interest rates in general remain several percentage points above commercial rates in the U.S. But even before the current crisis this situation did not attract capital from overseas. Businessmen and the Government would like to see interest rates drop. In fact bankers feel that unless they voluntarily lower rates themselves the government will order controls on rates.

Bankers, however, say that interest rates cannot drop significantly, since a flare-up in domestic inflation will occur this year and next (the result of higher prices of imported consumer goods). Furthermore, private bankers feel that if they lower interest rates now people will simply borrow bolivars and buy more dollars.

Recent rates at a major commercial bank were sixteen per cent for commercial loans and thirteen per cent for time deposits.

Bank executives interviewed in recent weeks are gloomy about profit prospects this year. Loan collections are already "very difficult," according to one commercial bank manager, and a number of business failures are expected this year because of the current economic plight.

Profits last year at Venezuela's 41 most important commercial banks were $176.7m, down for the second consecutive year. (Net profits in 1981 were $181m and in 1980 stood at $22m. Earnings in 1982 were affected by shrinkage in collections on loans which in turn flight, low confidence in the was influenced by capital Venezuelan economy and restricted money supply.

Reaction

According to Mr Richard B. Loth, an American financial adviser who is an expert on the Venezuelan banking system: "Prospects for the country's banks are very confusing. Exchange controls have produced a new ball game for everyone and the financial system is still reacting."

The Government recently moved to increase the role of commercial banks in distributing foreign exchange in Venezuela but bankers say that the exchange control rules remain "in a state of flux."

Loth, who has held overseas posts at Citibank and Bank of Venezuelan banks are to improve Montreal, also said that if their profits, they must follow the trend of banks in other countries and offer non-financial services. In addition, general liquidity must be improved. "The entire Venezuelan banking system is competing today for the same shrinking pool of short-term money. Liquidity growth for the past two years has been negative in real terms and the system has been illiquid. How do you get the economy to move ahead if there's no money in the system."

"Besides, in the competitive, high-interest rate environment in Venezuela, better profits have to depend on more than just buying funds at one price and selling them at another," he said. "Operating efficiency at banks can only be increased so much. Unless new sources of non-interest income are created and the country's over-specialised banking system made more flexible, it has nowhere to go except down."

LATIN AMERICA: Argentina's rulers clamp down on banking operations after its armed forces surrendered to the British on the Falklands last year.

Back under tight controls

Argentina

JIMMY BURNS

THE LAST YEAR has seen the Argentine banking sector subjected to major changes. In July the Central Bank put the lid down firmly on six years of open market monetarism by issuing 200 new regulations. Not all the rules have been applied and some have simply been ignored. But the overall effect of the measures has been clear enough — Argentina has once again one of the most controlled banking sectors in the world.

The prospect is that this control will get tighter if and when a civilian government emerges from the elections scheduled for October 30.

The changes were inevitable from the moment the Argentine armed forces surrendered to the British on the Falklands on June 14 last year. On that day opposition to the policies pursued since the military coup of March 1976 erupted with a vengeance.

Apart from the generals, it was the bankers and their previous economic "overlords" who faced the most bitter criticism.

In the popular Argentine jargon this was widely epitomised by the slogan "La patria financiera" (financial Mafia, in loose translation) to describe the alleged enrichment of the banking sector at the expense of the ordinary man.

In six years of military rule, the country's foreign debt had increased from $7bn to $39bn, bank branches had proliferated, some bank profits had soared. By 1979 bank deposits represented 26 per cent of GNP compared to 8 per cent in 1975. Against this the pamphleteers set a negative growth rate, rising unemployment, and a drop in real salaries over the same period of 40 per cent.

The popular condemnation of the banking sector found its most visible symbol last year in one of many angry demonstrations outside Government House. It was organised by bankrupt shareholders of the Banco de Intercambio Regional, formerly the country's second-largest private bank.

Empires

The collapse of the BIR in the spring of 1980 was the first sign that something had gone desperately wrong with the ambitious banking reforms introduced by the Junta's first Economy Minister Sr Jose Martinez de Hoz. The crisis that followed BIR's downfall involved banks linked to industrial and commercial holding empires which had mushroomed into empires following the 1976 coup.

A common feature of the bank collapses was the large degree of dubious self-lending practices. The banks also distinguished themselves by a reckless scramble for deposits which followed the Government's restoration of a system of totally free interest rates.

"It was a period when anyone who had the money could start a bank without having the slightest experience, and when the Central Bank was unable or unwilling to control the distortion of banking rules," recalled a leading industrialist. Arguably the package introduced by Sr Domingo Cavallo, Central Bank Governor, last July was less a reform than a conscious attempt to defuse growing political discontent by returning to the kind of banking rules defended by civilian governments before the coup.

In practice Argentine bankers over the past year have been adapting themselves to a system which is remarkably similar to that which existed during the two Peronist Governments which spanned most of the post war period.

The two principal mechanisms were taken straight from the Peronista copy book. Interest rates were set to officially fixed maximums laid down by the authorities, and which were sharply negative in real terms. The Central Bank also reintroduced a system of centralisation of deposits. Banks and other financial institutions were still the primary recipients of money from the public, but only for the account and on behalf of the Central Bank. The Central Bank's responsibility was to reallocate these funds by a means of a complicated mechanism of advances and rediscounts among the banks.

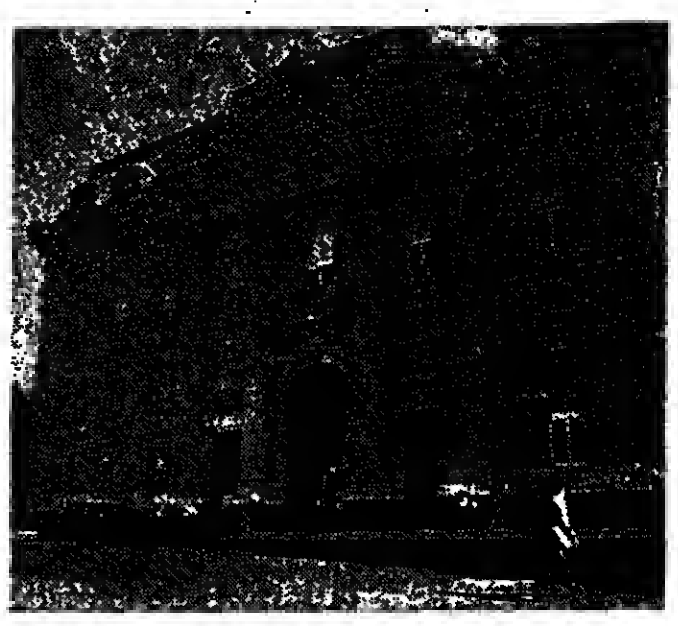
When the Cavallo package was first announced, the authorities justified their decision by saying the changes in the banking system would put an end to speculation and put funds back into productive activity.

"You ought not to get worried about everything that is being said about the withdrawal of funds from banks and the supposed currency emission to which this gives rise. Money must necessarily come back into the system because anyone who buys a flat or a share or any other assets hands the money over to the seller who in turn does not destroy it but rather deposits it in his bank or pays off debt," commented Cavallo in a television broadcast appealing to the "common man."

Heavily indebted businesses were the first to benefit from the Cavallo reforms since their debts were generously reduced overnight in real terms. This in turn eased the pressure on some banks whose loan portfolios had been looking distinctly shaky throughout the Martinez de Hoz era.

The Cavallo measures nevertheless seriously underestimated the unstable political context in which the Central Bank was moving. "To implement such reforms you need to have a strong military president or a Government that has just been elected by a handsome majority. Cavallo was part of a regime that was on the way out," commented a local economist.

Within hours of the Cavallo announcement there was a massive withdrawal of funds from short-term deposit accounts — the bulk of deposits in the system — and a massive panic buying up physical assets. But the price rise which followed was a great deal more dramatic than Cavallo had estimated, around a monthly rate of over 15 per cent. The banking system contracted dramatically.



Faced with 200 new regulations, Argentina once again has one of the most controlled banking sectors in the world. Above: Banco de la Nacion, in central Buenos Aires—Argentina's leading state bank.

Against the background of an increasingly agitated political scene and the growing uncertainties of the country's external situation — Cavallo had been so obsessed with his banking reforms that he had virtually forgotten the fact that his country was well behind on its debt payments—it soon became obvious that the days of the Central Bank governor were numbered. Cavallo resigned in September. He was replaced by Sr Julio Gonzalez del Solar, a free marketeer who was nevertheless pragmatic enough not to want to provoke a revolution by reversing everything that Cavallo had implemented.

In recent months Solar has steered a delicate course between the domestic political pressures on the one hand; and the realities of the country's debt obligations on the other.

In January Argentina signed a $2bn agreement with the International Monetary Fund, pledging to meet strict economic targets for the year in return from help from the international financial community in solving its foreign debt problems.

The deal struck with the fund has forced the authorities to adopt a somewhat more flexible attitude towards the banking sector. The fund is understood to have insisted that interest rates should be either totally freed again or at least raised to more realistic levels. On December 30 the authorities announced that the rate ceiling on 30-day deposits would be increased from 8.5 per cent to 10.5 per cent and that the rate on the large credits refinanced through the Central Bank rediscount window in July would increase from 9 per cent to 11.5 per cent per month.

The tendency towards greater "dirigisme" in the economy has continued, however, with both Solar and Sr Jorge Whebe, his economy minister, under considerable pressure from nationalist military officers and the civilian parties. Thus the Government has offered favourable credit terms to over 1,000 companies which adhere to an obligatory system of price control over the next year. Loans will be offered at 2 percentage points below the official ceilings. Companies affected are also entitled to soft loans to cover their wages bill.

Reliable, comprehensive, figures are still notoriously hard to come by in Argentina. Nevertheless there is evidence that the process in which the public switched their monetary assets into physical goods and real estate as a hedge to their savings may have abated slightly. A useful source of funds for many banks today are inflation and exchange rate linked deposit accounts.

High charges

Bank profits generally have kept up thanks to the spreads offered on the interbank "call market" as well as the alternative services. Some locally-based foreign banks, for instance, are opening up letters of credit to importers with very high commission charges. Trading in the external bond market is also active.

One of the major problems facing the banks is the difficulty of readapting their labour force to the new operational structure.

Bank personnel during the Martinez de Hoz era were geared to the enormous amount of paper work involved in clearing deposits and loans with short maturities. It was usual for the loan book of a bank to turn over every four to six weeks.

Nowadays most banks are hugely overstaffed although management is reluctant to shed labour because of the power of the Peronist-controlled union movement.

Most Argentine bankers are reluctant to offer any firm prediction about the future. This is partly the fault of the military which is far from overjoyed with the prospect of handing over power, and partly the fault of the politicians who remain ambiguous about their plans. Investment thus remains sluggish, although the authorities insist there are definite signs of recovery on the industrial front, that the monetary and fiscal targets are being met, and that the country's debt crisis has been ironed out, thanks to the fresh money and a bumper harvest.

Official statistics show that GDP registered an increase of 2 per cent in the first quarter of 1983 compared to the same period last year. Money supply rose by 10.9 per cent in January, 7.4 per cent in February, and 6 per cent in March, giving a first quarter total of 26.2 per cent — well in line with the IMF target. The Government has yet to win the fight against inflation — consumer prices increased by 46 per cent in the first quarter compared to a Government target of 38.3 per cent.

Brazil's emergence as a leading debtor nation has left no option but to retrench

Throttle closed on borrowing

Brazil

ANDREW WHITLEY

"FOOLS RUSH in where angels fear to tread" is an adage many Brazilian bankers, trapped abroad by a whirlwind loss of confidence, must be ruefully pondering these days. Only 18 months ago the future looked golden. With interest rates fixed at home and a Government pushing them to borrow abroad as much as possible, their 1981 balance sheets showed record-breaking results.

There were profits to be made hand over fist from domestic money market operations and normal commercial lending. There was even better business to be had, however, if you had your own branch abroad to attract foreign funds for on-lending to Brazil-based customers.

Between the end of 1979 and last September, when the Brazilian crisis broke, the number of foreign branches of Brazilian banks leapt from 68 to 108. The loans they raised under Resolution 63, a principal channel for foreign borrowing, rose in ever more spectacular fashion — from $7.7bn to $14.7bn.

Pushing in support of Brazilian exports and their own loan operations, the Brazilians played the inter-bank market for all it was worth. It was a classic case of borrowing short to lend long.

What few realised was how dangerously overexposed they had become and how quickly the situation could turn around once foreign banks sensed the Brazilian Government might have trouble meeting its obligations.

Within weeks of the Mexican and Argentine debt crises last August Brazilian inter-bank lines were cut to ribbons. New lending halted.

The unusual feature of the Brazilian case was that President Joao Figueiredo and Sr Antonio Delfim Netto, the Planning Minister, decided early on to try and ride out the storm. Despite a half-way house moratorium (affecting debt to private creditors falling due in 1983) and a series of emergency transfusions of funds from the IMF and foreign banks, that strategy still stands.

Its chief weakness is the fact that Brazilian banks abroad have obligations estimated at over $11bn, 50 per cent higher than their (nationalised) Mexican counterparts. Two-thirds of that sum had been raised by just two banks, the state-owned Banco do Brasil and Banco do Estado de Sao Paulo.

For the private banks the struggle to stay afloat and avoid a failure, which would have triggered a domino action, was aggravated by the way the Banco do Brasil in New York hogged the majority of new funds the Brazilian Government was able to raise.

The New York branch of the giant state commercial bank acts as the foreign payments and collection agent for the central bank. Thus the blow fell there first when the vital inflow of loans to Brazil dried up.

Safety net

From a position of being a daily investor of up to $2.5bn on the money markets Banco do Brasil found itself operating for weeks on end with a deficit at the end of each day of over $1bn. It survived thanks to a safety net created by Bankers Trust, its clearer, and other leading U.S. banks.

For the moment the Brazilian banking structure remains intact in its pre-crisis shape. But faced with the prospect of losses abroad for several years to come, many of those 108 branches are likely to be closed as soon as there is a breathing space.

In fact a limited reorganisation of the banking scene within Brazil is a likely consequence of the traumas of the past eight months.

Unless a formal full-scale moratorium is declared later in the year, nationalisation of part of the Brazilian private banks is most unlikely to take place. Those privately-owned banks most affected overseas, like Bradesco, Banco Real and Safra, are still immensely strong in cruzeiro terms.

Profits may have fallen in 1982 by comparison with the previous year but average profitability (measured as profits divided by net worth) was still 43 per cent last year. Brazil is the largest single profit centre, worldwide, for Citibank.

On the other hand, the slow process of consolidation may well speed up in the coming years, to the advantage of the major financial conglomerates such as Bradesco and Itau. A medium-sized Rio bank, Residencial, which was closely tied to land and property investments, was recently taken over by a larger Sao Paulo bank, Auxiliar.

For their part the Western banks which have supported Brazil throughout the crisis hope its end will bring the opening of the doors closed in the mid-1960s. With two minor exceptions the number of foreign-owned banks allowed to operate in Brazil, and the size of their branch networks, has been frozen since that time. Morgan Guaranty and, to a lesser extent, Bankers Trust lead the phalanx of banks hoping to enter the commercial banking market.

Until now banks such as these and others whose potential growth has been limited by the restrictions have channelled their resources into investment banks and, more recently, leasing companies. Lloyd's 50 per cent shareholding in London Multiplic has been an outstanding example of success, while Midland and Manufacturers Hanover do well from their leasing activities.

AFRICA: swift changes are under way in South Africa's banking system. Official policy has generally encouraged the move towards a freer market in the sector

Buffeted by increasingly fierce competition

South Africa

BERNARD SIMON

THE REVOLUTION in South African banking has gathered such momentum in recent months that even bankers themselves hesitate to predict what may happen next.

The speed of change was neatly illustrated last month when the chairman of Standard Bank Investment Corporation, the country's second largest banking group (and a Standard Chartered subsidiary), felt obliged to revise his 1983 profit outlook made only two months previously. As recently as February last Stanbic said it was budgeting for a "fairly modest" increase in income this year. Now it expects earnings to fall.

Like South Africa's other banks, Stanbic is being buffeted by increasingly fierce competition, which is forcing banks to reduce the price of many services while pushing up advertising budgets and outlays on such costly equipment as automated teller machines.

The most far-reaching development was the abolition in February of the clearing banks' 56-year cartel, removing one of the most troublesome curbs on free competition.

In particular the demise of the cartel opened the way for banks to begin paying interest on current accounts. Until now they have had their bread buttered on both sides, paying nothing for current account deposits and at the same time charging customers a "service fee" on all debits and large cash deposits.

Within three weeks of the cartel's end, Nedbank said it would begin paying between 2 per cent and 5 per cent on current accounts with balances of more than R500. "It's a dramatic bid for increased market share," according to Mr Rob Abrahamsen, the bank's managing director.

Nedbank receives only about a tenth of its deposits from current account balances. A far lower proportion than its two main competitors — Barclays and Standard — each of which relies on cheque accounts for 21-22 per cent of total deposits. Even so, Mr Abrahamsen conceded that the move could cost Nedbank R20m a year, a seventh

Barclays National and Stanbic have been forced to follow suit but they have tried to minimise the impact on their profits by opting for more complicated schemes combining interest payments with service fee rebates. The sudden decision to pay interest on current accounts was the main reason for Stanbic's revised profit forecast.

Barclays and Stanbic, though perhaps lacking Nedbank's aplomb, have also managed at times to steal a march on the competition.

Barclays was the first South African bank last year to offer home mortgages in direct competition with the building societies and at only slightly higher rates. (The societies have the advantage of being allowed to offer tax-free investment, thus giving them the ability to quote lower lending rates.) Barclays has lent over R300m to 5,000 home buyers in the past nine months.

Stanbic has led the field in installing automated tellers, and now has over 200 in service.

Not surprisingly, the large corporate customers are the main beneficiaries of the keener competition. They are able to negotiate slender commissions on banking services (many of which were also regulated by the cartel in the past). Banks have begun shaving—and in some cases abolishing—the "commitment fees" charged on large overdraft lines.

Official policy has generally encouraged the move towards a freer market in the banking sector. According to Barclays managing director, Mr Colin Waterson, it has enabled banks "to react more rapidly than in the past to market forces and to alter interest rates to market-related levels."

Prime rate

Banks have fallen over themselves to reduce lending rates in the past six months. Their prime overdraft rate, which stood at a record 20 per cent between March and November 1982, has already tumbled to 14 per cent and is expected to fall to 11-12 per cent by the end of the year as a sturdier balance of payments and weaker demand for credit pushes up domestic liquidity. Prime rate is no longer linked to the Reserve Bank's rediscount rate and blue-chip customers have been at times able to negotiate loans at rates below prime.

Finance Minister Mr Owen Horwood said recently that a two-man inquiry will soon be set up to examine one of the remaining bureaucratic irritants—the maximum limits laid down for financing charges on amounts up to R100,000. He hinted that the Government is ready to consider adjusting the ceilings—which presently range from 20 per cent to 24 per cent, depending on the amount of the loan—more frequently than in the past.

A number of other improvements are in the pipeline. The commission of inquiry into monetary policy chaired by Dr Gerhard de Kock, Governor of the Reserve Bank, has already indicated that it will propose a change in banks' reserve requirements from a system based on pre-determined "liquid assets" to a less onerous one based on cash reserves. The final de Kock report is expected around mid-1983.

The Reserve Bank is also considering ways of leasing the foreign exchange markets. Despite the abolition of exchange controls over foreigners in February and other steps to liberalise the market since the first de Kock report four years ago, foreign exchange dealing is distorted by the overwhelming influence of the Reserve Bank.

Foreign currency proceeds from South Africa's bullion exports are still channelled to the central bank, which acts as the mines' sole marketing agent. As a result the foreign exchange market relies on the Bank for its supply of U.S. dollars, giving Church Square tight control over the exchange rate of the rand.

The Reserve Bank has agreed in principle to route at least part of its bullion dollars direct to the mining houses, which in turn deposit them with the private banks, thus enlarging the foreign exchange market. But the scheme has apparently become bogged down in technical problems and it may be some time before it is implemented.

Likewise, no date has yet been set for planned improvements to the forward exchange. These are expected to result in banks being allowed to arrange their rand-dollar forward rates set by the Reserve Bank, which is more concerned about the balance of payments than interest rate differentials.

SOUTH AFRICA'S FIVE LARGEST BANKS

Rand m—quarterly averages for 1982

	Total deposits	Cheque deposits	Instalment lending
Barclays National	7,542	1,666	2,997
Stanbic	7,346	1,514	2,122
Nedbank	4,332	451	846
Bankorp	4,102	395	1,965
Volkskas	3,689	796	545

Source: Standard Bank Investment Corporation

International trade debt could exceed $5bn

Arrears mount in trade payments

Nigeria

QUENTIN PEEL

THE queue at the main reception desk at the Central Bank of Nigeria in Lagos stretches out of the main entrance hall and far into the street, and woe betide any visitor who attempts to bypass it. For once in Nigeria, the order of first come-first served is strictly observed, and the most insistent would-be VIPs are swiftly returned to the end of the line.

The scene is a graphic illustration of the topic of all-consuming concern to the Nigerian banking community: the length of the pipeline of arrears of trade payments owing to international banks and trading houses. Where once the queue at the Central Bank was of prospective importers pestering for permission to order more goods, today it consists mainly of traders begging for their foreign exchange payments.

Nobody is quite sure of the extent of the arrears, which have built up over 15 months, as Nigeria's declining oil production has failed to keep pace with its bloated import bill. Alhaji Abdulkadir Ahmed, the governor of the Central Bank, maintains that it does not exceed $3bn — in trade payments approved by the bank, but for which foreign currency is simply not available. Most commercial bankers say it must have reached at least $5bn, if not more, including all forms of short-term debt.

Traders' risk

The effect of the backlog, however, is quite apparent: all but a handful of smaller international banks have ceased confirming Nigerian letters of credit since last October. Traders have been forced to do business at their own risk, or not at all. And Nigeria's good name for reliable payment of its international debts has been severely dented.

The arrears amount in effect to enforced borrowing by Nigeria from its major banks and trading partners, at a time when its foreign reserves have slumped in two years from more than $9bn to barely $1bn, less than enough to cover one month's imports. Just one year ago, the governor decided he would only allow foreign exchange disbursements to be

Lagos, commercial capital of Nigeria—the country's good name for reliable payment of its international debts has been severely dented.

made equal to his monthly receipts: so the level of reserves stayed the same, and the backlog of unpaid bills has soared.

"The country is facing a cash-flow problem, rather than a fundamental debt problem," according to one leading banker, "but the end result is the same: the international banking community is very cautious about getting more deeply involved."

While the backlog in trade payments has been the most important development on the external front, the Nigerian Government has also been seeking to cover its shortfall in revenues by increased borrowing from the domestic banking sector. From mid-1981 to mid-1982, bank lending to the public sector rose from N1.7bn to N8.1bn. Treasury bills outstanding rose from N2.1bn to N5.8bn in the same period.

The fall in foreign reserves was therefore largely offset by the big rise in bank credit, resulting in a modest 7 per cent increase in money supply to mid-1982. Indeed, the net effect of government domestic borrowing, and foreign borrowing through delays on trade payments, has been to mitigate the slump in oil production, and lessen its immediate effect on economic activity.

Nonetheless, the signs of slower growth have been apparent in the banking sector. In 1976, there were 14 commercial banks in the country with 273 branches, which by the end of 1981 had increased to 20 banks with 869 branches; and six merchant banks with 15 offices. In 1982, only two new commercial banks were licensed.

The banks have also had difficulty in the past year in meeting the limit laid down by the Central Bank for the growth of lending: the target of a 30 per cent increase was comfortably met in 1981, but the failure of the banks to keep up the same rate of growth in 1982 has resulted in a lower ceiling — of 25 per cent — being set this year.

Big Three

The commercial banking sector continues to be dominated by the Big Three — First Bank of Nigeria, Union Bank of Nigeria, and United Bank of Africa, whose principal foreign correspondents are Standard Chartered, Barclays and Banque Nationale de Paris, respectively. They control rather more than 50 per cent of business. In the early 1970s, their proportion of the sector was closer to 80 per cent, which shows the extent to which newcomers have nonetheless managed to gain a significant market share.

After being underlent in the 1970s, with advances of no more than 50 per cent of their deposits, and often as low as 40 per cent, the lending ratio has risen to around 65 per cent, reflecting the doubling in commercial bank credit to the private sector in the past two years alone.

A key constraint on lending has been the overwhelming preponderance of short-term deposits in the banking system: in 1981, more than 80 per cent carried maturities of under 12 months. However, the banks have been trying to lengthen their loan portfolios with greater resort to term lending. In 1970, 90 per cent of commercial bank lending was for periods of less than one year, but by the end of 1980, the proportion had fallen to 77 per cent.

"A criticism of the system has been its failure to lend both to small borrowers and to the agricultural sector, which the Nigerian Government has made its top economic priority. As a result, the Central Bank lays down prescribed sectoral credit allocation guidelines, requiring that 75 per cent of lending go to the "preferred sector," which includes agriculture, manufacturing, construction and exports.

As one measure to curb imports, the government has steadily sought to reduce the proportion of bank lending available to importers, further cut in the latest budget to only 6 per cent. The refusal of correspondent banks to confirm letters of credit has nonetheless been the most effective restraint on the import bill.

The short-term payments crisis has also restricted the room for manoeuvre of the major commercial banks in Nigeria, by tying up increasing amounts of money in the Central Bank bureaucracy. Prospects for its resolution remain uncertain. Although a number of the largest banks favour refinancing of a significant proportion of the debt over a longer term, others are strongly opposed to any such move without the Nigerian government agreeing on a full-scale austerity programe with the International Monetary Fund.

WORLD BANKING XX

NORTH AFRICA: reforms in the Algerian banking scene.

A more specialised role

Algeria

FRANCIS GHILES

THE ALGERIAN banking scene is changing, but the reforms promoted since President Chadli Bendjedid came to power just over four years ago are being introduced, and implemented, very slowly. These reforms are the consequence of the reassessment of economic priorities conducted in 1979 and 1980.

Investment priorities were shifted away from concentration on the heavy industrial sector and towards light industries, housing and agriculture. In agriculture and certain light and service industries the private sector which, until 1979 had a profile so low as to be quasi-clandestine was to be encouraged in order to create more jobs and help make the economy more efficient.

At the same time major state corporations such as Sonatrach, which is responsible for exploration and marketing of oil and gas, Sonacome, which covers the mechanical industries' sector and CNAN, the shipping monopoly, have been broken up into smaller specialised and autonomous national companies.

The banks for their part have been asked to play a more important part than hitherto, not simply in raising funds abroad when needed, but in assessing projects and ensuring that from their inception, investment funds are more tightly managed.

Throughout the 1970s, the banks played a major role in raising the vast sums of money which Algeria needed to launch its massive industrial projects. However, since early 1980 Algeria has not raised any funds on the international capital markets.

In their new role as advisers to state companies and financial watchdogs, the banks are becoming more specialised.

The Banque Algérienne de Developpement, the only one in Algeria which can provide a state guarantee when it raises a loan on the international capital markets has been allotted the role of helping to assess and eventually raise funds for some of the major infrastructure projects being undertaken in the country. The railways, for whose development $10bn have been earmarked over the next ten years, falls into this category.

The Banque Extérieure d'Algérie will look after Sonatrach's requirements and all matters related to energy. That includes the half of CNAN which has been split away from the old shipping monopoly and which has the responsibility of carrying the country's gas, oil, condensates and liquid petroleum gas.

The Banque Nationale d'Algerie will be entrusted with the heavy industrial sector, steelmaking and mechanical industries. Despite its lesser share of investment in the current plan (1981-86) the development of this sector remains essential for Algeria's economic growth overall. Many companies have longstanding relations with foreign banks and companies.

At some stage during the next six months a new bank will be born. Its role will be to look after the light industrial, textiles, leather, and consumer goods sectors. All these areas of activity are developing fast and many private entrepreneurs have a stake in them. Thus the new bank will have to live with both state and private customers.

The recently set up Banque de l'Agriculture et du Development Rural will have its hands full helping the sector of Algeria's economy which has performed least well since independence in 1962. Production has been at near static levels for years and the country food import bill now runs at around $1bn a year.

President Chadli has encouraged the restructuring of this sector and both private and state farmers are now allowed to sell produce directly in the cities, by-passing what used to be very inefficient state distribution companies.

Private affairs

The banks now extend credit to private farmers, whose level of productivity is usually much higher than that of state farms, despite the land they own being on the whole poorer than that of the state. The new bank initially was to have been stationed at Blida, just south of Algiers in the heart of the rich agricultural region of the Mitidja. However, bureaucratic gravity appears to had ensured that it will be headquartered in Algiers.

Two other banks, which are less well known abroad, particularly in the case of the second, are the Credit Populaire d'Algerie and the Caisse Nationale d'Epargne et de Prevoyance. The first looks after the interests of the housing sector which has received much encouragement since 1981 while the second acts as a savings bank.

All these changes are taking place slowly and remain somewhat baffling to outsiders. This is because the Algerian authorities have not yet got around to explaining the new structure of the banks and leading state companies to all those foreign banks and companies who do business with Algeria.

Foreign bankers, for instance, wonder who exactly owns the assets of the old Sonatrach. Some western bank lawyers would dearly like to be more fully informed.

All this does not detract from the relatively better shape of Algeria's external finances if compared with that of many other developing countries, particularly among the heavy spending oil producers.

Its oil and gas income is expected to decline by $1-2bn this year but it held up remarkably well last year, reaching about $13bn, that is the same as in 1981. The country's overall foreign debt has declined since 1980 to about $16bn at the end of last year.

Debt repayments however remain heavy: $1.5bn according to statistics from the Bank of International Settlements between June 1982 and June 1983, of which $795m is accounted for by medium-term debt and $732m by short term debt. Hard currency reserves, exclusive of gold declined to $2.5bn from $3.7bn between June 1981 and June 1982.

The debt outstanding to foreign banks meanwhile stood at $7.7bn last year. It is thus not surprising that Algeria should be back in the international capital markets for the first time in more than three years.

The large loan for Sonatrach launched after Easter by the Banque Eterieure d'Algerie was increased from $500m to $600m last week. Considering that it boasts a split margin over the interbank rate of ½ and ⅝ per cent, which is very fine, the operation can be considered a success. The response would have been strong enough to allow an increase to $700m.

The loan has 23 lead managers with the five Arab banks —Arab Banking Corporation, Union de Banques Arabes et Francaises, BAII, Gulf International and Apicop playing a leading role. A second, smaller loan, is planned next autumn.

More banks set up than at any time since independence from France

Market gains many new entries

Tunisia

FRANCIS GHILES

SINCE Mansour Moalla became Minister of Finance two years ago the Tunisian banking scene has witnessed the setting up of more banks than at any time since independence from France, just over a quarter of a century ago.

Investment banks have appeared on the Tunisian scene which are the channel for a growing flow of Middle East funds currently being invested in the country's economy. Each of the new banks associates Tunisian capital with capital from the oil-rich Middle East countries — Saudi Arabia, Kuwait and the Emirates.

Together these new banks, many of which have not really begun operating other than on paper, are expected to invest about one third of the $13.2bn total investment targeted for the current five-year Development Plan (1982-87).

They are the direct result of the more active presence Tunisia has sought in the Arab world since M Mohamed Mzali became Prime Minister two years ago. As a highly respected banker, with many long-standing links with his counterparts in other Arab countries, M Moalla was ideally placed to switch the traditionally pro-European Tunisian banking and financial elite towards a position of greater co-operation with other Arab countries.

Tunisia was lucky that this shift in emphasis occurred before the oil glut and the consequent decline in the price of crude oil. The country's leaders were also able to point to a good track record in managing their country's resources and to many worthwhile projects in which surplus Arab funds could be invested.

Critics of the Minister of Finance argue that creation of banks is in danger of being regarded, in Tunisian official circles, as a way of remedying all economic ills. They certainly have a point when they note that for a country as small as Tunisia, with its population of 7m, to boast of 26 banking establishments (if offshore bank units are included) smacks of profligacy.

Amalgamating some of the Tunisian commercial banks would serve to rationalise this sector but vested interests are strong: it is easier to create new banks than merge existing ones. These are early days, however, and judgment must be deferred. Most of the new banks are little more than a year old and two at least not yet operational.

Long standing

The Tunisian scene has traditionally been dominated by 10 commercial banks, only three of which are strictly private affairs —Banque Internationale Arabe de Tunisie, Banque de Tunisie and Credit Foncier et Commercial de Tunisie. The major Tunisian bank, both in terms of its capital base and activities, is Societe Tunisienne de Banque. Its interests have traditionally been tied to industry, while those of the second largest institution, Banque Nationale de Tunisie have tended to focus on the agriculture sector.

Union Internationale de Banques, for its part, has spent much time helping to promote Tunisian exports and thus built up a more active and sophisticated international department than most of the other banks in Tunis.

Six new consortium investment banks have been set up since 1981, which brings to eight the number of investment banks in Tunisia. The Banque de Developpement Economique de Tunisie, founded in 1959 and headed by President Bourguiba's son Habib Bourguiba Jr, was the first of such institutions. The International Financial Corporation and the Caisse Centrale de Co-operation Economique both have a stake in it.

The Compagnie Financiere et Touristique, which has a joint Tunisian and Kuwaiti shareholding, set up later in the 1970s, has focused its activities primarily on the important tourist sector.

They were joined in 1981 by the Banque Tuniso-Kowitienne de Developpement, the Banque de Cooperation du Maghreb Arabe and the Societe Tuniso-Saoudienne d'Investissement.

The first has focused its interests on Tunisian industry, where Kuwaiti interests had already shown considerable interest in the late 1970s, while the third is concentrating its initial efforts on the agricultural sector. The second bank, which is a joint Tunisian-Algerian development has recently received a boost from the much improved relations between Algeria and Tunisia following the state visit to Tunis by the Algerian President, M. Chadli Bendjedid. A number of joint projects were agreed during that visit, in March, which should allow the new bank to start work on concrete projects.

A handful of Western banks are represented in Tunis on an offshore basis but any hope of Tunisia becoming important offshore banking sector has been dashed by the very tight control maintained by Tunisia's Banque Centrale on the banking activities of foreign banks. In the late 1970s there was talk of creating a free port and other facilities which, together with offshore banking developments would have created a "free zone" in Tunis.

Some banks, such as Bank of America have now scaled down their activities and only operate a representative office where they once operated a branch. First National Citibank remains the most active in this group of banks, having boosted its activities by a growth in correspondent banking. It is unlikely that other Western banks will be attracted to Tunis in the near future.

Commercial banks

1 Societe Tunisienne de Banque
2 Banque Nationale de Tunisie
3 Banque Internationale Arabe de Tunisie
4 Banque du Sud
5 Union Bancaire pour le Commerce et l'Industrie
6 Union Internationale de Banques
7 Banque de Tunisie
8 Credit Foncier et Commercial de Tunisie
9 Banque Franco Tunisienne
10 Arab Tunisian Bank

Investment consortium

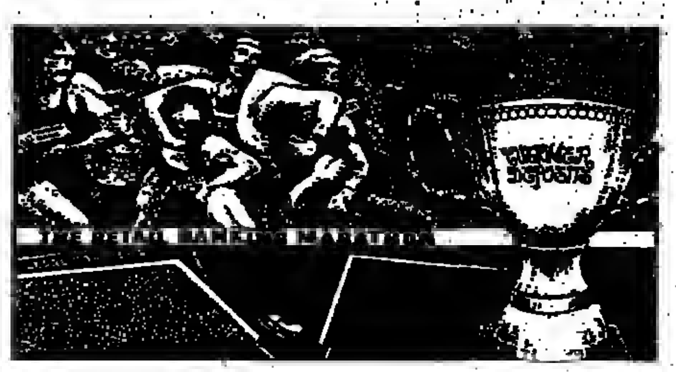
1 Banque Developpement Economique de Tunisie
2 Banque Tuniso-Koweitienne de Developpement
3 Societe Tuniso-Saoudienne d'Investissement et de Developpement
4 Banque de Cooperation du Maghreb Arabe
5 Banque Tunisienne et des Emirats d'Investissements
6 Banque Tuniso-Qatarie d'Investissement
7 Banque Nationale de Developpement Agricole
8 Compagnie Financiere et Touristique

Offshore banks

1 First National City Bank
2 Chase Manhattan Bank
3 Bankers Trust Company
4 Bank of America
5 National Bank of Abu Dhabi
6 Union Tunisienne de Banque
7 Tunis International Bank
8 Middle East Bank

A revolution in financial services

CONTINUED FROM PAGE 1



systems to company finance directors. Bank of America is just one example of such a marketing effort; it is selling its BAMTRAC system which allows multi-currency instant fund transfers around the world.

A number of major banks are now attempting to achieve the kind of "one-stop" financial services business which will allow them to protect their corporate clients and attract more personal deposits as well.

The financial organisation of the 1990s may well be an institution which has a securities broking subsidiary (Chase Manhattan is gearing up for this), a retail network involving fewer costly branches and a greater number of cash dispensers in banks and retail areas, insurance services, plastic cards, travellers cheques, money market funds, point-of-sale debit systems and more.

This is what many bankers feel will be needed if they are to compete effectively with non-banks which may have greater product flexibility, greater geographic latitude, an extremely large customer base and lower overheads.

What will the successful bank look like in the year 2000? It is not too early to speculate—the "future" is only 17 years away. Mr Patrick Fraser and Mr Dimitri Vittas of the Committee of London Clearing Bankers recently published a 300-page book on the international dimensions of the retail banking revolution.

They conclude that there will be "no typical bank." Banks will range from specialist boutiques to one-stop giants. Much will depend on the regulatory environment. Even if the "level playing field" desired by U.S. bankers is not in place, controls over interest rates and restrictions on branching will have been relaxed or abolished, say Messrs Fraser and Vittas.

As a result, "the bank of the future will have more rivals than ever before." Some banks will be "complete financial supermarkets" and others—those which have evolved away from large branch networks—may offer fewer services but an international system of cash dispensers and electronic means of transferring funds from one currency to another.

The authors of this study, like other critics of narrow corporate banking, argue that the bank of the future will be just one place among many for customers to select services. "Banking inertia, wrongly attributed to customer loyalty in the past, will be overcome by technology."

The institutions that succeed, be they banks, supermarkets or whatever, will be those which concentrate on identifying and fulfilling the customers' financial needs.

هكذا من الاصل